



晋商银行
Jinshang Bank

晋商银行股份有限公司
JINSHANG BANK CO., LTD.

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

Stock Code: 2558

Interim Report
2019

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DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

“IFRS 9”	International Financial Reporting Standard 9 – Financial Instruments
“Articles of Association”	the articles of association of the Bank, as amended, supplemented or otherwise modified from time to time
“Bank” or “our Bank”	Jinshang Bank Co., Ltd. (晉商銀行股份有限公司), a joint stock company established on October 16, 1998 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
“Board” or “Board of Directors”	the Board of Directors of the Bank
“Board of Supervisors”	the Board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, for the purpose of this Interim Report, unless the context otherwise requires, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Group”, “we” or “us”	the Bank together with its subsidiary, and, if the context requires, includes its predecessors, branches and sub-branches

DEFINITIONS

“H Shares”	the ordinary shares issued by the Bank with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 18, 2019, the listing date on which the H Shares were listed on the Hong Kong Stock Exchange
“PBoC” or “the central bank”	the People’s Bank of China (中國人民銀行)
“Reporting Period”	the six months ended June 30, 2019
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares of the Bank
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“Supervisor(s)”	the supervisor(s) of the Bank

CORPORATE INFORMATION

Legal Chinese Name	晉商銀行股份有限公司
Abbreviation in Chinese	晉商銀行
Legal English Name	Jinshang Bank Co., Ltd.
Abbreviation in English	Jinshang Bank
Legal Representative	YAN Junsheng
Authorized Representatives	YAN Junsheng, YEUNG Ching Man
Listing Place of H Shares	The Stock Exchange of Hong Kong Limited
Abbreviated Stock Name	JINSHANG BANK
Stock Code	2558
Secretary to the Board of Directors	LI Weiqiang ¹
Joint Company Secretaries	HAO Qiang, YEUNG Ching Man
Registered Address and Address of Head Office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province, the PRC
Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Tel	0351-6819503
Fax	0351-6819503
E-mail	dongban@jshbank.com
Website	www.jshbank.com
Initial Registration Date	October 16, 1998

¹ As of the date of this Interim Report, the qualification of Mr. LI Weiqiang as secretary to the Board of Directors is still subject to the approval of CBIRC Shanxi Office. Prior to obtaining the approval, the duty of the secretary to the Board of Directors is performed by Ms. HAO Qiang.

CORPORATE INFORMATION

Registration Number of the Enterprise Business License	1400001006774
Unified Social Credit Code	911400007011347302
Financial License Institution Number	B0116H214010001
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Center 183 Queen's Road East Wan Chai, Hong Kong
PRC Legal Advisor	King & Wood Mallesons 17th Floor, One ICC Shanghai ICC 999 Middle Huai Hai Road, Xuhui District Shanghai, the PRC
Hong Kong Legal Advisor	Paul Hastings 21-22/F, Bank of China Tower 1 Garden Road Hong Kong
Auditor	KPMG Certified Public Accountants 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong
Board Committees	Development and Strategy Committee YAN Junsheng (Chairperson), JIN Haiteng, TANG Yiping, LI Shishan, DUAN Qingshan Audit Committee WANG Liyan (Chairperson), SAI Zhiyi, LIU Chenhang, SUN Shihu, YE Xiang Risk Management Committee SAI Zhiyi (Chairperson), JIN Haiteng, TANG Yiping, WANG Jianjun, DUAN Qingshan

CORPORATE INFORMATION

Related Parties Transactions Control Committee

JIN Haiteng (Chairperson), SUN Shihu, WANG Peiming, RONG Changqing, WANG Liyan

Nomination, Remuneration and HR Committee

DUAN Qingshan (Chairperson), JIN Haiteng, YAN Junsheng, XIANG Lijun, SAI Zhiyi

Consumer Rights Protection Committee

SUN Shihu (Chairperson), WANG Liyan, TANG Yiping, LI Yang, SAI Zhiyi

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

For the six months ended June 30,

	2019	2018	Rate of change (%)
	(Expressed in millions of RMB, unless otherwise stated)		
Results of operations			
Interest income	4,376.6	4,283.5	2.2
Interest expense	(2,709.6)	(2,598.6)	4.3
Net interest income	1,667.0	1,684.9	(1.1)
Fee and commission income	328.2	195.1	68.2
Fee and commission expense	(20.2)	(23.8)	(15.1)
Net fee and commission income	308.0	171.3	79.8
Net trading gains	45.2	197.7	(77.1)
Net gains arising from investment securities	428.3	327.5	30.8
Other operating income	23.4	28.1	(16.7)
Operating income	2,471.9	2,409.5	2.6
Operating expenses	(799.2)	(713.9)	11.9
Impairment losses on assets	(898.5)	(892.0)	0.7
Share of profits of associates	13.0	26.6	(51.1)
Profit before tax	787.2	830.2	(5.2)
Income tax	(44.9)	(151.7)	(70.4)
Net profit for the period	742.3	678.5	9.4
Net profit attributable to:			
Equity shareholders of the Bank	745.4	682.8	9.2
Non-controlling interests	(3.1)	(4.3)	(27.9)
Earnings per share attributable to equity shareholders of the Bank (RMB per share)			
— Basic	0.15	0.14	7.1
— Diluted	0.15	0.14	7.1

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	As of June 30, 2019	As of December 31, 2018	Rate of change (%)
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(Expressed in millions of RMB,
unless otherwise stated)

Key indicators for assets/liabilities

Total assets	238,848.6	227,247.8	5.1
Of which: net loans and advances to customers	107,385.7	98,118.1	9.4
Total liabilities	222,592.9	211,251.9	5.4
Of which: deposits from customers	161,810.0	144,896.8	11.7
Share capital	4,868.0	4,868.0	0.0
Equity attributable to equity shareholders of the Bank	16,232.7	15,969.8	1.6
Total equity	16,255.7	15,995.9	1.6

For the six months ended June 30,

	2019	2018	Change
Profitability indicators (%)			
Return on average assets ⁽¹⁾	0.64	0.65	(0.01)
Return on average equity ⁽²⁾	9.21	9.18	0.03
Net interest spread ⁽³⁾	1.80	1.76	0.04
Net interest margin ⁽⁴⁾	1.70	1.81	(0.11)
Net fee and commission income to operating income	12.46	7.11	5.35
Cost-to-income ratio ⁽⁵⁾	30.99	28.45	2.54

	As of June 30, 2019	As of December 31, 2018	Change
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Asset quality indicators (%)

NPL ratio ⁽⁶⁾	1.71	1.87	(0.16)
Allowance coverage ratio ⁽⁷⁾	210.23	212.68	(2.45)
Allowance to gross loan ratio ⁽⁸⁾	3.60	3.97	(0.37)

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	As of June 30, 2019	As of December 31, 2018	Change
Capital adequacy indicators (%)⁽⁹⁾			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	9.56	10.63	(1.07)
Tier-one capital adequacy ratio ⁽¹¹⁾	9.56	10.63	(1.07)
Capital adequacy ratio ⁽¹²⁾	11.75	12.99	(1.24)
Total equity to total assets	6.81	7.04	(0.23)

	As of June 30, 2019	As of December 31, 2018	Change
Other indicators (%)			
Loan-to-deposit ratio ⁽¹³⁾	69.44	70.99	(1.55)
Liquidity coverage ratio ⁽¹⁴⁾	242.96	226.64	16.32
Liquidity ratio ⁽¹⁵⁾	81.02	83.91	(2.89)

	As of June 30, 2019	As of March 31, 2019	As of December 31, 2018
Net stable funding ratio⁽¹⁶⁾			
Total available stable funding	139,673.1	133,025.0	133,954.3
Total required stable funding	102,601.0	103,434.9	102,688.0
Net stable funding ratio (%)	136.13	128.61	130.45

(Expressed in millions of RMB,
unless otherwise stated)

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Notes:

- (1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the period, and adjusted on an annualized basis.
- (2) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and the end of the period, and adjusted on an annualized basis.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.
- (6) Calculated by dividing total NPLs by gross loans and advances to customers. Except as otherwise stated, the “gross loans and advances” referred to in this Interim Report exclude interest accrued.
- (7) Calculated by dividing total allowance for impairment losses on loans and advances to customers (including the provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income) by total NPLs.
- (8) Calculated by dividing total allowance for impairment losses on loans and advances to customers (including the provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income) by gross loans and advances to customers.
- (9) Calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》).
- (10) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.
- (11) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.
- (12) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
- (13) Calculated by dividing total loans and advances to customers by total deposits from customers (excluding interest accrued).
- (14) Liquidity coverage ratio is calculated in accordance with the formula promulgated by the CBIRC. Liquidity coverage ratio = high-quality liquid assets/net cash outflows for the next 30 days × 100%.
- (15) Liquidity ratio is calculated in accordance with the formula promulgated by the CBIRC. Liquidity ratio = balance of current assets/balance of current liabilities × 100%.
- (16) Net stable funding ratio is calculated in accordance with the formula promulgated by the CBIRC. Net stable funding ratio = available stable funding/required stable funding × 100%. According to the Measures for Disclosure of Information on the Proportion of Stable Capital by Commercial Banks (Yin Bao Jian Fa [2019] No. 11) (《商業銀行經穩定資金比例資訊披露辦法》(銀保監發[2019]11號)) issued by the CBIRC in 2019, information relating to the net stable funding ratio as at the end of 2018, end of March 2019 and end of June 2019 should be disclosed here.

1. REVIEW OF THE ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

During the first half of 2019, in the face of the complicated international and domestic situation, China's economy has generally maintained a stable trend, operated in a reasonable range, with the economic structure continuously optimized and upgraded, and the quality of economic development has been improved effectively. The national economic structure was further optimized and the quality of economic development improved. For the six months ended June 30, 2019, China's GDP reached RMB45,093,300 million, representing an increase of 6.3% year-on-year at constant prices; the added value of above-scale industries in China increased by 6.0% year-on-year; fixed asset investment (excluding peasant household) rose 5.8% year-on-year; the total retail sales of consumer goods increased by 8.4% year-on-year, and the contribution of consumption growth to economic growth reached 60.1%. Domestic consumer price rose 2.2% year-on-year.

During the first half of 2019, domestic money supply, social financing scale and RMB loans all maintained a rapid growth. As of the end of June 2019, the year-on-year growth in broad money (M2) was 8.5%, a growth rate that has remained steady for three consecutive months. During the first half of 2019, the increment of social financing amounted to RMB13.2 trillion in aggregate, representing a year-on-year increase of RMB3.2 trillion. RMB loans grew RMB9.7 trillion, representing a year-on-year increase of RMB644.0 billion. In the first half of 2019, the regional economy in Shanxi Province remained stable with a steady growth, and the province continued to witness optimization of its industrial structure, vitalized driving forces in its growth, enhanced quality and efficiency of its economy, and solid progress made in its pursuit of high-quality development. Among other things, the provincial GDP reached approximately RMB835.8 billion, representing a year-on-year growth of 7.2%, 0.9 percentage point higher than the national average. The provincial economy rose to the 20th in China in term of size, with the growth rate ranking 10th nationwide; the added value of above-scale industries in the province increased by 6.9%, 0.9 percentage point higher than the national average, among which the added value of the manufacturing industry increased by 7.5%; fixed asset investment (excluding peasant household) increased by 8.2%, 2.4 percentage points higher than the national average; total retail sales of consumer goods increased by 8.3%, 0.1 percentage point higher than the annual growth rate in 2018.

2. BUSINESS OVERVIEW AND DEVELOPMENT STRATEGIES

The Bank's strategic goal is to harness its core competitiveness through serving and supporting Shanxi Province's economic development, and to become a listed regional bank with strong competitiveness in the local market that boasts a sound corporate structure, featured products and services, a rigorous risk management system and comprehensive functions. On July 18, 2019, the Bank was officially listed on the Hong Kong Stock Exchange, becoming the first listed bank in Shanxi Province and filling the gap of listed banks in Shanxi Province. The Bank ranked 421st among the "Top 1000 World Banks 2019" published by *The Banker*, moving up 19 places compared with our ranking in 2018.

Centering on the strategic deployment of its five-year plan, and to achieve the goal above, in the first half of 2019, the Bank stood firm on the keynote of seeking improvement in stability, continued to adjust the business structure, changed the way of business growth, and constantly promoted its business competitiveness and business innovation.

MANAGEMENT DISCUSSION AND ANALYSIS

First, vigorously exploring development opportunities in regions of Shanxi Province. The Bank strives to improve its ability to serve the real economy and actively promote the development of inclusive finance and poverty alleviation via financial solutions, so as to provide solid financial support for winning the “three tough fights (三大攻堅戰)” of preventing and resolving major risks, targeted poverty alleviation and prevention and control of pollution, and for “shaping the beautiful image, and realizing the revitalization of Shanxi Province (塑造山西美好形象、實現山西振興崛起)”.

Second, promoting the transformation of business structure. The Bank adheres to the philosophy of “building a bank founded and thriving on the basis of deposit (存款立行、存款致勝)” and develops retail business in diverse perspectives; strengthens joint marketing efforts of head office and branches to serve corporate customers, optimizes its customer structure, consolidates the foundation of its business; continuously strengthen the vitality of rising businesses such as asset management, investment banking, internet finance and credit cards, making significant contribution to driving the revenue growth of the Bank’s intermediary business.

Third, improving refined and centralized management. The Bank will strengthen the construction of business lines, improve coordination of internal and external businesses and promote resource-sharing. The Bank will also strengthen the management and control of various risks, enhance its risk management capabilities, improve the efficiency of services, take the goal of establishing an “agile, smart and caring” bank, and continue deepening the reform of operation lines while promoting the reform of technology lines.

Fourth, strengthening team building. The Bank aims to enhance the management of human resources and make efforts to cultivate talents so as to gather new momentum for its sustainable development.

In the second half of 2019, the downward pressure on the domestic economy is still conceivable. Implementation of the policy of “seek stabilities in six major areas (六穩)” (namely, employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations) will be accelerated, and macroeconomic policies will actively and flexibly generate a countercyclical adjustment effect. Prudent monetary policy will prevail at a moderate level, so as to maintain reasonable and adequate liquidity; meanwhile, a proactive fiscal policy will increase effectiveness, and the further progress in supply-side structural reform will enhance market vitality and confidence. Facing the external uncertainties of China’s development, the Shanxi regional economy remains stable amid concerns, as pressure increases. Centering on the economic trends and regulatory requirements inside and outside the province, the Bank will seize its H-share listing as an opportunity, take full advantages of overseas capital markets and Hong Kong’s international platform; stick to the market positioning of “vigorously exploring Shanxi market, serving local economy, serving small and medium enterprises, serving urban residents, serving internet users (深耕山西市場、服務地方經濟、服務中小企業、服務城鎮居民、服務互聯網用戶)”; focus on the three centers of “transformation, risk control, development (轉型、風控、發展)”, based on four directions of “regional development, differential competition, integrated management, networked service (區域化發展、差異化競爭、綜合化經營、網絡化服務)”; continue to promote the growth of debt scale, improvement of asset quality and income structure, and strive to improve market competitiveness as well as operating and management capacities.

MANAGEMENT DISCUSSION AND ANALYSIS

3. INCOME STATEMENT ANALYSIS

	Six months ended June 30,		
	2019	2018	change (%)
	(Expressed in millions of RMB, unless otherwise stated)		
Interest income	4,376.6	4,283.5	2.2
Interest expense	(2,709.6)	(2,598.6)	4.3
Net interest income	1,667.0	1,684.9	(1.1)
Fee and commission income	328.2	195.1	68.2
Fee and commission expenses	(20.2)	(23.8)	(15.1)
Net fee and commission income	308.0	171.3	79.8
Net trading gains	45.2	197.7	(77.1)
Net gains arising from investment securities	428.3	327.5	30.8
Other operating income ⁽¹⁾	23.4	28.1	(16.7)
Operating income	2,471.9	2,409.5	2.6
Operating expenses	(799.2)	(713.9)	11.9
Impairment losses on assets	(898.5)	(892.0)	0.7
Operating profit	774.2	803.6	(3.7)
Share of profits of associates	13.0	26.6	(51.1)
Profit before tax	787.2	830.2	(5.2)
Income tax	(44.9)	(151.7)	(70.4)
Net profit	742.3	678.5	9.4

Note:

(1) Consists primarily of default penalty income, rental income from owned properties and penalty income.

For the six months ended June 30, 2019, the profit before tax of the Group decreased by 5.2% to RMB787.2 million from RMB830.2 million for the six months ended June 30, 2018, and net profit for the same period increased to RMB742.3 million from RMB678.5 million for the six months ended June 30, 2018, representing a year-on-year growth of 9.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

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

For the six months ended June 30, 2019, the net interest income of the Group decreased by 1.1% to RMB1,667.0 million from RMB1,684.9 million for the six months ended June 30, 2018, mainly due to the 4.3% increase in interest expense, which was partially offset by the 2.2% increase in interest income.

The net interest spread of the Group increased from 1.76% for the six months ended June 30, 2018 to 1.80% for the six months ended June 30, 2019, mainly due to the impact of monetary policy and relatively abundant market funds, making the average cost of total interest-bearing liabilities 17 basis points lower, which was partly offset by a 13 basis points fall in the average yield on total interest-earning assets. Among others, the decrease in issuance rates of certificates of interbank deposit was one of the main reasons for the decline in average cost of total interest-bearing liabilities.

The net interest margin of the Group decreased from 1.81% for the six months ended June 30, 2018 to 1.70% for the six months ended June 30, 2019, mainly due to the decrease in net interest income and the 5.3% increase in average balance of total interest-earning assets. Among others, the increase in the average balance of total interest-earning assets was mainly due to the increase in average balance of loans and advances to customers and financial assets held under resale agreements. The decrease in net interest income was mainly due to an increase in the average scale of the financial assets measured at fair value through profit or loss allocated by the Bank, which are without interest under IFRS 9; and the decrease in the bill discounting rates among loans and advances to customers, resulting in a corresponding decrease in interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the average balances of the Group's interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost on liabilities for the six months ended June 30, 2018 and 2019.

	For the six months ended June 30,					
	2019	2019		2018	2018	
Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	108,784.2	2,798.2	5.14	103,000.9	2,794.4	5.43
Financial investments ⁽²⁾	54,775.3	1,231.0	4.49	53,715.6	1,168.9	4.35
Placements with banks and other financial institutions	2,566.6	30.9	2.41	394.5	5.7	2.89
Financial assets held under resale agreements	10,978.9	169.4	3.09	5,968.8	133.0	4.46
Deposits with the central bank ⁽³⁾	18,124.6	131.2	1.45	22,231.9	165.3	1.49
Deposits with banks and other financial institutions	1,216.3	15.9	2.61	1,186.3	16.2	2.73
Total interest-earning assets	196,445.9	4,376.6	4.46	186,498.0	4,283.5	4.59
Interest-bearing liabilities						
Deposits from customers	144,665.5	1,616.4	2.23	136,465.0	1,482.7	2.17
Deposits from banks and other financial institutions	2,971.4	52.5	3.53	8,809.4	210.9	4.79
Placements from banks and other financial institutions	626.2	8.1	2.59	17.7	0.3	3.39
Financial assets sold under repurchase agreements	6,332.8	74.9	2.37	4,720.1	78.1	3.31
Debt securities issued ⁽⁴⁾	48,201.8	935.6	3.88	33,667.5	823.0	4.89
Borrowing from the central bank	722.9	10.5	2.90	191.7	3.6	3.76
Lease liabilities	508.8	11.6	4.56	-	-	-
Total interest-bearing liabilities	204,029.4	2,709.6	2.66%	183,871.4	2,598.6	2.83%
Net interest income		1,667.0			1,684.9	
Net interest spread ⁽⁵⁾			1.80%			1.76%
Net interest margin ⁽⁶⁾			1.70%			1.81%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Calculated by dividing interest income/expense by average balance and adjusted on an annualized basis.
- (2) Consist of financial investments measured at amortized costs and financial investments measured at fair value through other comprehensive income.
- (3) Consists primarily of statutory deposit reserves and surplus deposit reserves.
- (4) Consists of certificates of interbank deposit, financial bonds and tier-two capital debts.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, and adjusted on an annualized basis.
- (6) Calculated by dividing net interest income by the average balance of total interest-earning assets and adjusted on an annualized basis.

3.2 Interest income

For the six months ended June 30, 2019, interest income increased by 2.2% to RMB4,376.6 million from RMB4,283.5 million for the six months ended June 30, 2018, primarily due to a 5.3% increase in average balance of total interest-earning assets from RMB186,498.0 million for the six months ended June 30, 2018 to RMB196,445.9 million for the six months ended June 30, 2019, which was partially offset by a decrease of 13 basis points in the average yield on total interest-earning assets from 4.59% for the six months ended June 30, 2018 to 4.46% for the six months ended June 30, 2019.

Interest income from loans and advances to customers

Interest income from loans and advances to customers for the six months ended June 30, 2019 was RMB2,798.2 million, which remained stable as compared to the same period of 2018. Among the above, the average balance of loans and advances to customers increased by 5.6% from RMB103,000.9 million for the six months ended June 30, 2018 to RMB108,784.2 million for the six months ended June 30, 2019, which was partially offset by a decrease in the average yield on loans and advances to customers. The increase in the average balance of loans and advances to customers was primarily due to the continued expansion of the Bank's credit businesses. The decrease in the yield on loans and advances to customers was due to a decrease in the yield on discounted bills resulting from the easing market liquidity affected by monetary policies.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income from financial investments

For the six months ended June 30, 2019, interest income from financial investments increased by 5.3% to RMB1,231.0 million from RMB1,168.9 million for the six months ended June 30, 2018, primarily due to a 2.0% increase in the average balance of financial investments from RMB53,715.6 million for the six months ended June 30, 2018 to RMB54,775.3 million for the six months ended June 30, 2019, and an increase in the average yield on financial investments from 4.35% for the six months ended June 30, 2018 to 4.49% for the six months ended June 30, 2019. The increase in the average balance of financial investments was primarily due to the increase in the Bank's investment in bond assets; the increase in the yield on financial investments was primarily due to a higher average yield on SPV as compared to the same period of the previous year.

Interest income from placements with banks and other financial institutions

For the six months ended June 30, 2019, interest income from placements with banks and other financial institutions significantly increased to RMB30.9 million from RMB5.7 million for the six months ended June 30, 2018, primary due to a significant increase in the average balance of placements with banks and other financial institutions from RMB394.5 million for the six months ended June 30, 2018 to RMB2,566.6 million for the six months ended June 30, 2019, which was partially offset by a decrease in the average yield from 2.89% for the six months ended June 30, 2018 to 2.41% for the six months ended June 30, 2019. The increase in the average balance was primarily because the Bank increased its allocation to short-term placements with banks and other financial institutions driven by its liquidity management needs. The decrease in the yield was primarily due to the abundant liquidity of market funds and the decline in market interest rates in the first half of 2019 as compared to the same period of 2018.

Interest income from financial assets held under resale agreements

For the six months ended June 30, 2019, interest income from financial assets held under resale agreements increased by 27.4% to RMB169.4 million from RMB133.0 million for the six months ended June 30, 2018, primarily due to an 83.9% increase in the average balance of financial assets held under resale agreements from RMB5,968.8 million for the six months ended June 30, 2018 to RMB10,978.9 million, as the Bank utilized its comparatively abundant liquidity funds and entered into an increased number of reverse repurchase transactions, which was partially offset by a decrease in the yield from 4.46% to 3.09%. The decrease in the yield was primarily due to the easing liquidity of market funds and the decline in market interest rates affected by monetary policies.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income from deposits with the central bank

Interest income from deposits with the central bank decreased by 20.6% from RMB165.3 million for the six months ended June 30, 2018 to RMB131.2 million for the six months ended June 30, 2019, primarily attributable to a decrease in the average balance of reserve deposits with the central bank resulting from a decrease of the statutory deposit reserve ratio. The average balance of reserve deposits with the central bank decreased by 18.5% from RMB22,231.9 million for the six months ended June 30, 2018 to RMB18,124.6 million for the six months ended June 30, 2019.

Interest income from deposits with banks and other financial institutions

Interest income from deposits with banks and other financial institutions slightly decreased by 1.9% from RMB16.2 million for the six months ended June 30, 2018 to RMB15.9 million for the six months ended June 30, 2019.

3.3 Interest expense

The Group's interest expense increased by 4.3% from RMB2,598.6 million for the six months ended June 30, 2018 to RMB2,709.6 million for the six months ended June 30, 2019, primarily due to a 11.0% increase in the average balance of total interest-bearing liabilities (especially deposits from customers, debt securities issued, and financial assets sold under repurchase agreements) from RMB183,871.4 million for the six months ended June 30, 2018 to RMB204,029.4 million for the six months ended June 30, 2019, which was partially offset by a decrease of 17 basis points in its cost from 2.83% to 2.66%.

Interest expense on deposits from customers

Interest expense on deposits from customers increased by 9.0% from RMB1,482.7 million for the six months ended June 30, 2018 to RMB1,616.4 million for the six months ended June 30, 2019, primarily due to the Bank's commitment to developing its deposit business, which resulted in a corresponding 6.0% increase in the average balance of deposits from customers from RMB136,465.0 million for the six months ended June 30, 2018 to RMB144,665.5 million for the six months ended June 30, 2019. Meanwhile, the average cost on deposits from customers increased from 2.17% to 2.23%, mainly due to the increased proportion of time deposits, which carry higher cost, in the average balance of deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 75.1% from RMB210.9 million for the six months ended June 30, 2018 to RMB52.5 million for the six months ended June 30, 2019, primarily due to a 66.3% decrease in the average balance of deposits from banks and other financial institutions from RMB8,809.4 million for the six months ended June 30, 2018 to RMB2,971.4 million for the six months ended June 30, 2019. The decrease in the average balance was primarily due to the optimization of liability structure by the Bank by increasing the funds it obtained from issuing debt securities and deposits from customers, while reducing its reliance on deposits from banks and other financial institutions. In addition, due to the impact of downward market interest rates, the cost of deposits from banks and other financial institutions decreased from 4.79% for the six months ended June 30, 2018 to 3.53% for the six months ended June 30, 2019.

Interest expense on placements from banks and other financial institutions

Interest expense on placements from banks and other financial institutions increased from RMB0.3 million for the six months ended June 30, 2018 to RMB8.1 million for the six months ended June 30, 2019, primarily due to a significant increase in average balance of placements from banks and other financial institutions from RMB17.7 million for the six months ended June 30, 2018 to RMB626.2 million for the six months ended June 30, 2019. The increase in the average balance was primarily due to the Bank's moderate expansion of the scale of short-term placement business, in light of the lower interest rate of placements from banks and other financial institutions in the market.

Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements decreased by 4.1% from RMB78.1 million for the six months ended June 30, 2018 to RMB74.9 million for the six months ended June 30, 2019, primarily because its average cost decreased by 94 basis points from 3.31% to 2.37% due to the impact of monetary policies and easing market liquidity, which was partially offset by a 34.2% increase in the average balance of financial assets sold under repurchase agreements from RMB4,720.1 million for six months ended June 30, 2018 to RMB6,332.8 million. The increase in the average balance was primarily due to an increase in the number of repurchase transaction contracts the Bank entered into in order to diversify financing channels and reduce financing costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest expense on debt securities issued

Interest expense on debt securities issued increased by 13.7% from RMB823.0 million for the six months ended June 30, 2018 to RMB935.6 million for the six months ended June 30, 2019, primarily due to a 43.2% increase in the average balance of debt securities issued from RMB33,667.5 million for the six months ended June 30, 2018 to RMB48,201.8 million for the six months ended June 30, 2019, which was partially offset by a reduction in the average interest rate of debt securities issued from 4.89% to 3.88%. The increase in the average balance of debt securities issued was mainly due to the increased average balance of certificates of interbank deposit and financial bonds to replenish the Bank's working capital for business development. The decline in the average interest rate of debt securities issued was primarily due to a decline in the issuance rate resulting from the impact of monetary policies and the abundance of market funds.

Interest expense on borrowing from the central bank

Interest expense on borrowing from the central bank significantly increased from RMB3.6 million for the six months ended June 30, 2018 to RMB10.5 million for the six months ended June 30, 2019, primarily due to a substantial increase in the average balance of borrowing from the central bank from RMB191.7 million for the six months ended June 30, 2018 to RMB722.9 million, which was partially offset by a decrease in the average cost of borrowing from the central bank from 3.76% to 2.90%. The increase in the average balance and the decrease in the average cost was primarily because the Bank obtained through the central bank a higher allotment of relending loans (the proceeds from which are designated for supporting the development of micro and small enterprises), which bear a lower interest rate, so as to strengthen its credit extension to micro and small enterprises and private enterprises.

Interest expense on lease liabilities

As the Bank has been implementing the new lease accounting standards since January 1, 2019, the Group began to incur interest expense on lease liabilities in 2019, primarily because most of the irrevocable operating lease commitments were recorded in the right-of-use assets and lease liabilities, and the depreciation expense and interest were accrued according to the accounting treatment of the new lease standards, while the lease expense was no longer accrued. For the six months ended June 30, 2019, the interest expense on lease liability amounted to RMB11.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3.4 Net fee and commission income

The following table sets forth, for the six months ended June 30, 2018 and 2019, the principal components of net fee and commission income of the Group.

	For the six months ended June 30,			
	2019	2018	Amount change	Change (%)
(in millions of RMB, except percentages)				
Fee and commission income				
Agency service fees and others	111.6	46.6	65.0	139.5
Wealth management service fees	82.0	53.2	28.8	54.1
Acceptance and guarantee business fees	73.4	60.3	13.1	21.7
Settlement and clearing fees	32.6	19.3	13.3	68.9
Bank card service fees	28.6	15.7	12.9	82.2
Subtotal	328.2	195.1	133.1	68.2
Fee and commission expenses				
Settlement and clearing fees	(10.5)	(11.7)	1.2	(10.3)
Other	(9.7)	(12.1)	2.4	(19.8)
Subtotal	(20.2)	(23.8)	3.6	(15.1)
Net fee and commission income	308.0	171.3	136.7	79.8

The net fee and commission income increased by 79.8% from RMB171.3 million for the six months ended June 30, 2018 to RMB308.0 million for the six months ended June 30, 2019, primarily because of the Bank's active and effective development of agency business, wealth management services, bank card services and other intermediary services, resulting in a significant increase in the fee and commission income. Meanwhile, fee and commission expenses decreased by 15.1% from RMB23.8 million for the six months ended June 30, 2018 to RMB20.2 million for the six months ended June 30, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

3.5 Net trading gains

The net trading gains of the Group decreased by 77.1% from RMB197.7 million for the six months ended June 30, 2018 to RMB45.2 million for the six months ended June 30, 2019, mainly due to a decrease in the fair value change income of the funds and investment management products held by the Bank.

3.6 Net gains arising from investment securities

Net gains from investment securities of the Group increased by 30.8% from RMB327.5 million for the six months ended June 30, 2018 to RMB428.3 million for the six months ended June 30, 2019, mainly due to an increase in the dividends the Bank received from the funds it invested in compared with the same period in 2018.

3.7 Operating expenses

The following table sets forth, for the six months ended June 30, 2018 and 2019, the principal components of operating expenses of the Group.

	For the six months ended June 30,			
	2019	2018	Amount change	Change (%)
	(in millions of RMB, except percentages)			
Staff costs	498.7	472.1	26.6	5.6
Rental and property management expenses	47.6	71.4	(23.8)	(33.3)
Depreciation and amortization	128.3	61.6	66.7	108.3
Taxes and surcharges	33.2	28.5	4.7	16.5
Other general and administrative expenses ⁽¹⁾	91.4	80.3	11.1	13.8
Total operating expenses	799.2	713.9	85.3	11.9
Cost-to-income ratio ⁽²⁾	30.99	28.45		2.54

Notes:

- (1) Consist primarily of electronic equipment operating costs, insurance premiums, business marketing expenses, security expenses and banknote shipping fee.
- (2) Calculated by dividing total operating expenses by total operating income (net of taxes and surcharges).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses increased by 11.9% from RMB713.9 million for the six months ended June 30, 2018 to RMB799.2 million for the six months ended June 30, 2019, mainly due to an increase in depreciation and amortization expenses and staff costs.

The Group's cost-to-income ratio for the six months ended June 30, 2018 and 2019 (excluding taxes and surcharges) were 28.45% and 30.99%, respectively. The increase in cost-to-income ratio was primarily because the growth of operating expenses outpaced the growth of operating income.

Staff Costs

Staff costs were the largest component of the Group's operating expenses. Staff costs increased by 5.6% from RMB472.1 million for the six months ended June 30, 2018 to RMB498.7 million for the six months ended June 30, 2019, mainly due to an increase in social insurance premiums and annuities and housing subsidies. The following table sets forth the main components of staff costs for the period indicated.

	For the six months ended June 30,			
	2019	2018	Amount change	Change (%)
	(in millions of RMB, except percentages)			
Salaries, bonuses and allowances	318.3	316.0	2.3	0.7
Social insurance and annuity	110.5	101.5	9.0	8.9
Housing allowances	33.6	25.4	8.2	32.3
Staff welfare	9.5	8.2	1.3	15.9
Employee education expenses and labour union expenses	17.4	18.0	(0.6)	(3.3)
Supplementary retirement benefits	3.6	1.7	1.9	111.8
Others	5.8	1.3	4.5	346.2
Total staff costs	498.7	472.1	26.6	5.6

Rental and Property Management Expenses

Rental and property management expenses decreased by 33.3% from RMB71.4 million for the six months ended June 30, 2018 to RMB47.6 million for the six months ended June 30, 2019, mainly because the new lease accounting standards have been adopted by the Bank since January 1, 2019, and most of the irrevocable operating lease commitments were recorded in the right-of-use assets and lease liabilities, and the depreciation expense and interest were accrued according to the accounting treatment of the new lease standards, while the lease expense was no longer accrued.

MANAGEMENT DISCUSSION AND ANALYSIS

Depreciation and Amortization

Depreciation and amortization expenses increased by more than 100% from RMB61.6 million for the six months ended June 30, 2018 to RMB128.3 million for the six months ended June 30, 2019, mainly because the new lease accounting standards have been adopted by the Bank since January 1, 2019, and most of the irrevocable operating lease commitments were recorded in the right-of-use assets and lease liabilities, and the depreciation expense and interest were accrued according to the accounting treatment of the new lease standards.

Taxes and Surcharges

Taxes and surcharges increased by 16.5% from RMB28.5 million for the six months ended June 30, 2018 to RMB33.2 million for the six months ended June 30, 2019, mainly due to the Bank's business development and expansion, and the purchase of new office buildings by some branches resulting in an increase in property taxes.

Other General and Administrative Expenses

Other general and administrative expenses primarily consist of electronic equipment operating costs, insurance premiums, business marketing expenses, security expenses and banknote shipping fee. The Group's other general and administrative expenses increased by 13.8% from RMB80.3 million for the six months ended June 30, 2018 to RMB91.4 million for the six months ended June 30, 2019, mainly because the Bank increased its business promotion and advertising expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

3.8 Impairment losses on assets

The following table sets forth the principal components of the Group's impairment losses on assets for the period indicated.

	For the six months ended June 30,			
	2019	2018	Amount change	Change (%)
Impairment losses/(reversals) on assets				
Financial investments	713.5	(81.9)	795.4	N/A
Loans and advances to customers	97.7	936.8	(839.1)	(89.6)
Credit commitments	85.5	6.0	79.5	1,325.0
Deposits with banks and other financial institutions	0.1	(0.1)	0.2	N/A
Others	1.7	31.2	(29.5)	(94.6)
Total	898.5	892.0	6.5	0.7

The Group's impairment losses on assets was RMB898.5 million for the six months ended June 30, 2019, representing a slight increase of 0.7% from RMB892.0 million for the six months ended June 30, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

3.9 Income tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to the Group's profit before tax and the Group's actual income tax for the period indicated.

	For the six months ended June 30,			
	2019	2018	Amount change	Change (%)
	(in millions of RMB, except percentages)			
Profit before tax	787.2	830.2	(43.0)	(5.2)
Income tax calculated at applicable statutory tax rate of 25%	196.8	207.6	(10.8)	(5.2)
Non-deductible expenses	4.9	1.3	3.6	276.9
Non-taxable income ⁽¹⁾	(156.8)	(57.2)	(99.6)	174.1
Income tax	44.9	151.7	(106.8)	(70.4)

Note:

- (1) Non-taxable income mainly represents the interest income arising from the PRC government bonds and dividends from domestic enterprises.

Income tax decreased by 70.4% from RMB151.7 million for the six months ended June 30, 2018 to RMB44.9 million for the six months ended June 30, 2019, mainly attributable to an increase in the non-taxable income for the six months ended June 30, 2019, as a result of the Bank's increased investment in debt securities issued by PRC government and in funds, the interest income arising from the PRC government bonds and dividends from fund investment are tax free according to relevant PRC laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS

4. FINANCIAL STATEMENT ANALYSIS

4.1 Assets

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

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Cash and deposits with the central bank	21,727.6	9.1	23,589.7	10.4
Deposits with banks and other financial institutions	1,120.3	0.5	792.3	0.3
Placements with banks and other financial institutions	3,602.3	1.5	500.1	0.2
Derivative financial assets	0.6	0.0	–	–
Financial assets held under resale agreements	15,578.8	6.5	24,180.0	10.6
Net loans and advances to customers	107,385.7	45.0	98,118.1	43.2
Net financial investments	84,928.5	35.6	76,764.6	33.8
Interest in associate	264.8	0.1	251.7	0.1
Property and equipment	1,434.1	0.6	746.6	0.3
Deferred tax assets	1,444.3	0.6	1,268.8	0.6
Other assets ⁽¹⁾	1,361.6	0.5	1,035.9	0.5
Total assets	238,848.6	100.0	227,247.8	100.0

Note:

- (1) Consist primarily of right-to-use assets, interests receivables, prepayments for acquisition of property and equipment and other receivables.

The Group's total assets increased by 5.1% from RMB227,247.8 million as of June 30, 2018 to RMB238,848.6 million as of June 30, 2019, mainly due to an increase of loans and advances to customers by 9.4% from RMB98,118.1 million as of June 30, 2018 to RMB107,385.7 million as of June 30, 2019, an increase of financial investments by 10.6% from RMB76,764.6 million as of June 30, 2018 to RMB84,928.5 million as of June 30, 2019, and a significant increase of placements with banks and other financial institutions from RMB500.1 million as of June 30, 2018 to RMB3,602.3 million as of June 30, 2019. Such increases were partially offset by a decrease in cash and deposits with the central bank and financial assets held under resale agreements.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and Advances to Customers

The following table sets forth the distribution of the Group's loans by business line as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans	71,097.1	64.2	73,928.3	72.7
Personal loans	15,090.6	13.6	15,037.7	14.8
Discounted bills	24,627.4	22.2	12,671.8	12.5
Gross loans and advances to customers	110,815.1	100.0	101,637.8	100.0
Accrued interest	538.6		497.6	
Less: Provision for loans and advances to customers measured at amortised cost	(3,968.0)		(4,017.3)	
Net loans and advances to customers	107,385.7		98,118.1	

Corporate Loans

As of June 30, 2019, the Group's corporate loans amounted to RMB71,097.1 million, representing a decrease of 3.8% from RMB73,928.3 million as of December 31, 2018, mainly because customers settled large amounts of loans according to the stipulations of the contract (among which, one corporate banking customer paid off loans totaling RMB1.0 billion in advance).

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the distribution of the Group's corporate loans by contract maturity as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Short-term loans and advances (one year or below)	22,615.4	31.8	25,114.8	34.0
Medium- and long-term loans (one year above)	48,481.7	68.2	48,813.5	66.0
Total corporate loans	71,097.1	100.0	73,928.3	100.0

Short-term loans and advances as a percentage of total corporate loans decreased from 34.0% as of December 31, 2018 to 31.8% as of June 30, 2019, while medium- and long-term loans as a percentage of total corporate loans increased from 66.0% as of December 31, 2018 to 68.2% as of June 30, 2019. The percentage change of the above-mentioned corporate loan portfolio was mainly due to the fact that the Bank actively carried out credit structure adjustment work in accordance with the national macro credit policy and the requirements of Shanxi's energy economic transformation reform, and issued medium- and long-term loans to quality enterprises whose cash liquidity can meet their routine production and operation needs, to support their long-term development.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the distribution of the Group's corporate loans by product type as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Working capital loans	46,806.3	65.8	50,136.1	67.8
Fixed asset loans	23,132.9	32.5	22,678.1	30.7
Others ⁽¹⁾	1,157.9	1.7	1,114.1	1.5
Total corporate loans	71,097.1	100.0	73,928.3	100.0

Note:

(1) Consist primarily of syndicated loans.

The percentage of working capital loans to total corporate loans decreased from 67.8% as of December 31, 2018 to 65.8% as of June 30, 2019, and the percentage of fixed asset loans to total corporate loans increased from 30.7% as of December 31, 2018 to 32.5% as of June 30, 2019. During the Reporting Period, the corporate loan structure of the Group remained relatively stable.

Personal Loans

As of June 30, 2019, the Group's personal loans amounted to RMB15,090.6 million, which was approximately the same as RMB15,037.7 million as of December 31, 2018. Specifically, the Bank continued to promote personal business loans, support the development of small and micro enterprises, and vigorously expand credit card business.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the distribution of the Group's personal loans by product type as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Residential mortgage loans	9,216.4	61.1	9,403.6	62.5
Personal consumption loans	2,201.2	14.6	2,921.4	19.4
Personal business loans	2,112.4	14.0	1,770.5	11.8
Credit cards	1,560.6	10.3	942.2	6.3
Total personal loans	15,090.6	100.0	15,037.7	100.0

As of June 30, 2019, residential mortgage loans were RMB9,216.4 million, representing a slight decrease of 2.0% from RMB9,403.6 million as of December 31, 2018. The decrease was mainly attributable to the fact that the government's policy of suppressing house-price speculation remained unchanged in 2019; the transaction volume of the housing market declined subject to the influence of the restricted purchase policy in Shanxi (especially the provincial capital Taiyuan City), and banks' mortgage business was affected accordingly.

As of June 30, 2019, personal consumption loans amounted to RMB2,201.2 million, representing a decrease of 24.7% from RMB2,921.4 million as of December 31, 2018. The decrease was primarily due to the Bank's efforts to optimize the personal loan portfolio by controlling the scale of personal consumption loans which have relatively higher risks and focusing on developing other relatively low-risk personal loans, especially credit card businesses focusing on modest consumption.

As of June 30, 2019, personal business loans amounted to RMB2,112.4 million, representing an increase of 19.3% from RMB1,770.5 million as of December 31, 2018. The increase was mainly attributable to the Bank's active support for the development of the local economy, the assistance provided to small and micro enterprises, the promotion of inclusive finance, and the enhancement of the Bank's ability to serve the local economy through product innovation and capturing market opportunities.

As of June 30, 2019, credit card balances amounted to RMB1,560.6 million, representing an increase of 65.6% from RMB942.2 million as of December 31, 2018. The increase was mainly attributable to the Bank's efforts to develop its credit card business, through innovative services and promotion methods, and significant growth in the number of credit cards issued and business scale through the launch of well-received products such as "JD Co-Branded Card (京東聯名卡)".

MANAGEMENT DISCUSSION AND ANALYSIS

Discounted Bills

The discounted bills are principal components of the Bank's loan and advances portfolio, the balance of which increased significantly by 94.3% from RMB12,671.8 million as of December 31, 2018 to RMB24,627.4 million as of June 30, 2019, mainly due to the Bank's expansion of its discounted bills business in light of the market demand and the Bank's business strategy.

Financial Investments

As of June 30, 2019, the Group's financial investments (consisting primarily of debt securities investment and SPV investment) amounted to RMB84,928.5 million, representing an increase of 10.6% from RMB76,764.6 million as of December 31, 2018. The increase was mainly due to the Bank's increased investments in debt securities and funds, which was in line with its risk management policies and investment strategies.

The following table sets forth the classification of the Group's financial investments under IFRS 9, based on its business model and cash flow characteristics, as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments measured at amortized cost	50,305.7	58.7	47,784.7	62.0
Financial investments measured at fair value through other comprehensive income	6,143.9	7.2	4,981.2	6.5
Financial investments measured at fair value through profit or loss	29,190.4	34.1	24,251.9	31.5
Total financial investments	85,640.0	100.0	77,017.8	100.0
Interest accrued	959.8		704.3	
Less: allowance for impairment losses	(1,671.3)		(957.5)	
Net financial investments	84,928.5		76,764.6	

MANAGEMENT DISCUSSION AND ANALYSIS

Debt Securities Investment

The following table sets forth the components of the Group's debt securities investments by issuer as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt securities issued by PRC government	23,867.4	77.3	17,191.8	74.7
Debt securities issued by policy banks	4,738.5	15.3	4,090.4	17.8
Debt securities issued by commercial banks and other financial institutions	607.4	2.0	494.2	2.1
Debt securities issued by corporate issuers	1,660.5	5.4	1,253.9	5.4
Total debt securities investment	30,873.8	100.0	23,030.3	100.0

The Group's investment in debt securities issued by PRC government increased by 38.8% from RMB17,191.8 million as of December 31, 2018 to RMB23,867.4 million as of June 30, 2019, primarily because the Bank initiatively increased its investment in debt securities issued by PRC government which have relatively low risks and high liquidity, in line with its risk management policies and investment strategies.

The Group's investment in debt securities issued by policy banks increased by 15.8% from RMB4,090.4 million as of December 31, 2018 to RMB4,738.5 million as of June 30, 2019, primarily because the Bank increased its investment in policy financial bonds in line with its risk management policies and investment strategies, after becoming a qualified member of the underwriting syndicate for debt securities issued by policy banks for the year 2019.

As of June 30, 2019, the Group's investment in (i) debt securities issued by commercial banks and other financial institutions and (ii) debt securities issued by corporate issuers increased by 22.9% and 32.4%, respectively, as compared to that as of December 31, 2018, primarily because the Bank actively increased its investment in (i) debt securities issued by highly rated commercial banks and (ii) short-term credit bonds issued by corporate issuers, in line with its risk management policies and investment strategies.

MANAGEMENT DISCUSSION AND ANALYSIS

SPV Investment

The following table sets forth the distribution of the Group's SPV investment by product type as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Trust plans	10,431.1	20.2	11,452.0	22.4
Asset management plans	19,049.2	36.8	22,837.8	44.6
Wealth management products	51.0	0.1	50.2	0.1
Funds	22,174.1	42.9	16,885.5	32.9
Total SPV investment	51,705.4	100.0	51,225.5	100.0

As of June 30, 2019, total SPV investment increased slightly by 0.9% to RMB51,705.4 million from RMB51,225.5 million as of December 31, 2018. In particular, the Bank optimized its investment portfolio, reduced the scale of debt investment such as trust plans and asset management plans, and further increased the allocation to high liquidity assets such as funds, in line with its risk management policies and investment strategies.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Components of the Group's Assets

The following table sets forth the composition of the Group's other components of assets as of December 31, 2018 and June 30, 2019:

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Cash and deposits with the central bank	21,727.6	46.7	23,589.7	45.0
Deposits with banks and other financial institutions	1,120.3	2.4	792.3	1.5
Placements with banks and other financial institutions	3,602.3	7.7	500.1	1.0
Derivative financial instruments	0.6	0.0	–	–
Financial assets held under resale agreements	15,578.8	33.5	24,180.0	46.2
Interest in associate	264.8	0.6	251.7	0.5
Property and equipment	1,434.1	3.1	746.6	1.4
Deferred tax assets	1,444.3	3.1	1,268.8	2.4
Other assets ⁽¹⁾	1,361.6	2.9	1,035.9	2.0
Total other components of assets	46,534.4	100.0	52,365.1	100.0

Note:

- (1) Consists primarily of right-of-use assets, interests receivable, prepayments for acquisition of property and equipment and other receivables.

As of June 30, 2019, total other components of assets decreased by 11.1% to RMB46,534.4 million from RMB52,365.1 million as of December 31, 2018, mainly due to the decrease in financial assets held under resale agreements and cash and deposits with the central bank. In particular, financial assets held under resale agreements decreased from RMB24,180.0 million as of December 31, 2018 to RMB15,578.8 million as of June 30, 2019, mainly due to the Bank's adjustment of asset structure featuring an increased size of assets such as loans and financial investments. Cash and deposits with the central bank decreased by 7.9% to RMB21,727.6 million from RMB23,589.7 million as of December 31, 2018, mainly due to the decline in the statutory deposit reserve ratios.

MANAGEMENT DISCUSSION AND ANALYSIS

4.2 Liabilities

The following table sets forth the components of the Group's total liabilities as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Deposits from customers	161,810.0	72.7	144,896.8	68.6
Debt securities issued ⁽¹⁾	44,786.8	20.1	51,288.9	24.3
Financial assets sold under repurchase agreements	9,221.9	4.1	8,680.4	4.1
Deposits from banks and other financial institutions	2,641.5	1.2	2,513.7	1.2
Borrowing from the central bank	870.0	0.4	590.0	0.3
Placements from banks and other financial institutions	100.1	0.0	100.0	0.0
Income tax payable	202.0	0.1	106.2	0.1
Other liabilities ⁽²⁾	2,960.6	1.4	3,075.9	1.4
Total liabilities	222,592.9	100.0	211,251.9	100.0

Notes:

- (1) Consists of certificates of interbank deposit, financial bonds and tier-two capital bonds.
- (2) Consists primarily of accrued staff cost, lease liabilities, estimated liabilities and dividend payable.

As of June 30, 2019, the Group's total liabilities amounted to RMB222,592.9 million, representing an increase of 5.4% from RMB211,251.9 million as of December 31, 2018, mainly reflecting that the increase in deposits from customers, partially offset by a decrease in the balance of debt securities issued.

Deposits from Customers

As of June 30, 2019, the Group's deposits from customers amounted to RMB161,810.0 million, representing an increase of 11.7% from RMB144,896.8 million as of December 31, 2018. The increase in deposits from customers was mainly due to growth of the Bank's corporate deposits and personal time deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the distribution of the Group's deposits from customers by product type and term structure of deposits as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	43,590.9	27.3	36,977.4	25.8
Time	40,173.7	25.2	35,037.0	24.5
Subtotal	83,764.6	52.5	72,014.4	50.3
Personal deposits				
Demand	9,760.8	6.1	10,878.3	7.6
Time	53,606.9	33.6	47,071.7	32.9
Subtotal	63,367.7	39.7	57,950.0	40.5
Others ⁽¹⁾	12,461.0	7.8	13,211.6	9.2
Total	159,593.3	100.0	143,176.0	100.0
Interests accrued	2,216.7		1,720.8	
Deposits from customers	161,810.0		144,896.8	

Note:

(1) Consists primarily of pledged deposits, fiscal deposits, inward and outward remittances.

The amount of corporate deposits increased by 16.3% from RMB72,014.4 million as of December 31, 2018 to RMB83,764.6 million as of June 30, 2019, mainly due to the Bank's continuous efforts to increase marketing, enrich deposit products, and expand government and institutional customers, to achieve steady growth in corporate deposits.

The amount of personal deposits increased by 9.3% from RMB57,950.0 million as of December 31, 2018 to RMB63,367.7 million as of June 30, 2019, mainly due to the Bank's increased marketing efforts (especially for the promotion of time deposit products) and improved service quality to maintain individual customer loyalty.

MANAGEMENT DISCUSSION AND ANALYSIS

Debt Securities Issued

As of June 30, 2019, debt securities issued amounted to RMB44,786.8 million, representing a decrease of 12.7% from RMB51,288.9 million as of December 31, 2018. The decrease in debt securities issued was mainly due to the Bank's adjustment of liability structure according to market conditions, which led to increasing efforts in drawing deposits from customers and a lower balance of certificates of interbank deposit with relatively high cost.

Financial Assets Sold under Repurchase Agreements

As of June 30, 2019, financial assets sold under repurchase agreements amounted to RMB9,221.9 million, representing an increase of 6.2% from RMB8,680.4 million as of December 31, 2018, which was in line with the overall increase in total liabilities.

4.3 Equity

The following table sets forth the components of the Group's equity as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Share capital	4,868.0	29.9	4,868.0	30.4
Capital reserve	4,423.9	27.2	4,423.9	27.7
Surplus reserve	3,318.5	20.4	3,186.8	19.9
General reserve	2,788.4	17.2	2,788.4	17.4
Fair value reserve	(12.9)	(0.1)	(17.9)	(0.1)
Impairment reserve	17.7	0.1	17.2	0.1
(Deficit)/surplus on remeasurement of net defined benefit liability	(0.8)	0.0	0.5	0.0
Retained earnings	829.9	5.2	702.9	4.4
Equity attributable to equity holders of the Bank	16,232.7	99.9	15,969.8	99.8
Non-controlling interest	23.0	0.1	26.1	0.2
Total equity	16,255.7	100.0	15,995.9	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2019, the total equity of the Group amounted to RMB16,255.7 million, an increase of 1.6% from RMB15,995.9 million as of December 31, 2018. As of the same date, the equity attributable to equity holders of the Bank amounted to RMB16,232.7 million, an increase of 1.6% from RMB15,969.8 million as of December 31, 2018. The increase in equity was mainly attributable to the realization of net profit, which led to an increase in retained earnings, partially offset by dividends paid during the period. For the six months ended June 30, 2019, the Group realized a net profit of RMB742.3 million; according to the 2018 profit appropriation plan approved at the Bank's general meeting, cash dividend of RMB486.8 million was distributed to all shareholders.

5. OFF-BALANCE SHEET ITEMS ANALYSIS

The following table sets forth the contractual amounts of the Group's off-balance sheet commitments as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019	As of December 31, 2018
	(in millions of RMB)	
Loan commitment	3,027.1	1,652.3
Credit card commitment	5,062.6	2,701.3
Bank acceptances	25,206.0	22,081.3
Letter of credit	2,312.7	1,101.7
Letter of guarantee	282.5	45.5
Operating lease commitment	0.0	693.8
Capital commitment	140.4	66.0
Total off-balance sheet commitments	36,031.3	28,341.9

As of June 30, 2019, the Group's total off-balance sheet commitments amounted to RMB36,031.3 million, an increase of 27.1% from RMB28,341.9 million as of December 31, 2018, mainly because loan commitment, credit card commitment, bank acceptances, letter of credit and others all increased compared with the balance at the end of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

6. ASSET QUALITY ANALYSIS

Distribution of Loans by Five-Category Loan Classification

The following table sets forth the distribution of the Group's loans by the five-category loan classification as of December 31, 2018 and June 30, 2019. According to the current guidelines of risk-based classification of loans, non-performing loans ("NPL") are classified as substandard, doubtful and loss.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	105,942.9	95.6	97,048.2	95.6
Special Mention	2,974.1	2.7	2,690.6	2.6
Subtotal	108,917.0	98.3	99,738.8	98.2
Substandard	1,025.6	0.9	1,029.0	1.0
Doubtful	749.2	0.7	750.4	0.7
Loss	123.3	0.1	119.6	0.1
Subtotal	1,898.1	1.7	1,899.0	1.8
Total loans and advances to customers	110,815.1	100.0	101,637.8	100.0
NPL ratio⁽¹⁾		1.71		1.87

Note:

(1) Calculated by dividing the total NPLs by the total loans and advances to customers.

As of June 30, 2019, according to the five-category loan classification, the Group's normal loans amounted to RMB105,942.9 million, an increase of RMB8,894.7 million from December 31, 2018, accounting for 95.6% of the total loans and advances to customers. Special mention loans amounted to RMB2,974.1 million, an increase of RMB283.5 million from December 31, 2018, accounting for 2.7% of total loans and advances to customers. NPLs amounted to RMB1,898.1 million, a decrease of RMB0.9 million from December 31, 2018. The NPL ratio was 1.71%, a decrease of 0.16 percentage point from December 31, 2018. The "double decrease" in both the total amount and proportion of NPLs was mainly due to the Bank's write-off of NPLs eligible for write-off as required by the Ministry of Finance, in strict accordance with the Bank's internal risk management process and the regulatory authority's policy of "writing off all that should be written off".

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Loans by Collateral

The following table sets forth the distribution of the Group's loans and advances to customers by type of collateral as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
Pledged loans ⁽¹⁾	28,474.1	25.7	17,251.3	17.0
Collateralized loans ⁽¹⁾	13,879.6	12.5	13,346.6	13.1
Guaranteed loans ⁽¹⁾	61,950.8	55.9	63,531.8	62.5
Unsecured loans	6,510.6	5.9	7,508.1	7.4
Total loans and advances to customers	110,815.1	100.0	101,637.8	100.0

Note:

- (1) Represent the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Corporate Loans by Industry

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

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Manufacturing	22,366.7	31.5	22,243.6	30.1
Mining	15,194.1	21.4	16,168.2	21.9
Real estate	11,998.3	16.9	13,529.1	18.3
Wholesale and retail	6,410.7	9.0	6,925.6	9.4
Leasing and business services	5,245.6	7.4	4,321.7	5.8
Public administration, social security and social organization	3,781.6	5.3	4,082.8	5.5
Construction	3,002.6	4.2	2,414.4	3.3
Transportation, warehousing and postal services	917.8	1.3	1,891.9	2.6
Electricity, gas and water production and supply	1,437.3	2.0	1,656.1	2.2
Agriculture, forestry, animal husbandry and fishery	83.7	0.1	142.2	0.2
Education	52.1	0.1	53.3	0.1
Others ⁽¹⁾	606.6	0.8	499.4	0.6
Total corporate loans	71,097.1	100.0	73,928.3	100.0

Note:

- (1) Consist primarily of the following industries: (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

For the six months ended June 30, 2019, the Bank further optimized its credit structure and actively supported the development of the real economy. As of June 30, 2019, the Group's five major components of corporate loans were offered to customers in the following industries: manufacturing, mining, real estate, wholesale and retail, and leasing and business services. As of June 30, 2019 and December 31, 2018, the balance of loans to corporate customers in the top five industries amounted to RMB61,215.4 million and RMB63,188.2 million, respectively, accounting for 86.2% and 85.5% of the total loans and advances to customers issued by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth the distribution of the Group's NPLs to corporate customers by industry as of the dates indicated.

	As of June 30, 2019			As of December 31, 2018		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
(in millions of RMB, except percentages)						
Manufacturing	632.5	37.8	2.83	578.9	35.6	2.60
Wholesale and retail	606.6	36.2	9.46	576.0	35.5	8.32
Mining	293.3	17.5	1.93	293.6	18.1	1.82
Real estate	5.8	0.3	0.05	61.1	3.8	0.45
Public administration, social security and social organization	48.8	2.9	1.29	41.0	2.5	1.00
Construction	32.6	1.9	1.09	33.3	2.0	1.38
Leasing and business services	20.5	1.2	0.39	20.7	1.3	0.48
Agriculture, forestry, animal husbandry and fishery	17.6	1.1	21.03	6.9	0.4	4.85
Transportation, warehousing and postal services	9.6	0.6	1.05	6.3	0.4	0.33
Education	5.6	0.3	10.75	5.6	0.3	10.51
Electricity, gas and water production and supply	1.4	0.1	0.10	1.4	0.1	0.08
Others ⁽²⁾	0.9	0.1	0.15	–	–	–
Total non-performing corporate loans	1,675.2	100.0	2.36	1,624.8	100.0	2.20

Notes:

- (1) Calculated by dividing NPLs to corporate customers in each industry by gross loans to corporate customers in that industry.
- (2) Mainly comprised of information transmission, software and information technology services and accommodation and catering.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2019, the Group's non-performing corporate loans were mainly from manufacturing industry and wholesale and retail industry. As of December 31, 2018 and June 30, 2019, the NPL ratio for corporate loans in the manufacturing industry was 2.60% and 2.83%, respectively. Non-performing corporate loans to borrowers in the manufacturing industry accounted for 35.6% and 37.8% of the total non-performing corporate loans, respectively. The NPL ratio for corporate loans to borrowers in the manufacturing industry increased mainly because the operation of one corporate customer had not improved and its repayment ability weakened, resulting in NPL of RMB50 million.

As of December 31, 2018 and June 30, 2019, the NPL ratio for corporate loans in the wholesale and retail industry was 8.32% and 9.46%, respectively. Non-performing corporate loans to borrowers in the wholesale and retail industry accounted for 35.5% and 36.2% of the total non-performing corporate loans, respectively. The increase in NPL ratio for corporate loans to borrowers in the wholesale and retail industry was mainly due to the failure of some small business borrowers to adapt to economic restructuring policies in a timely manner, and deteriorated operating conditions.

As of December 31, 2018 and June 30, 2019, the NPL ratio for corporate loans in the mining industry was 1.82% and 1.93%, respectively. Non-performing corporate loans to borrowers in the mining industry accounted for 18.1% and 17.5% of the total non-performing corporate loans, respectively. Despite of the increase in the relevant NPL ratio, the balance of the Group's non-performing corporate loans to borrowers in the mining industry has not increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of NPLs by Product Type

The table below sets forth the distribution of NPLs by product type as of the dates indicated.

	As of June 30, 2019			As of December 31, 2018		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
(in millions of RMB, except percentages)						
Corporate loans						
Working capital loans	1,507.9	79.4	3.22	1,412.3	74.4	2.82
Fixed asset loans	133.2	7.0	0.58	178.4	9.4	0.79
Other loans ⁽²⁾	34.1	1.8	2.94	34.1	1.8	3.06
Subtotal	1,675.2	88.2	2.36	1,624.8	85.6	2.20
Personal loans						
Residential mortgage loans	9.1	0.5	0.10	9.0	0.5	0.10
Personal consumption loans	92.9	4.9	4.22	77.9	4.1	2.67
Personal business loans	101.6	5.4	4.81	175.6	9.2	9.92
Credit cards	16.9	0.9	1.08	8.1	0.4	0.86
Subtotal	220.5	11.7	1.46	270.6	14.2	1.80
Discounted bills						
Bank acceptance bills	2.4	0.1	0.01	3.6	0.2	0.03
Commercial acceptance bills	–	–	–	–	–	–
Subtotal	2.4	0.1	0.01	3.6	0.2	0.03
Total NPLs	1,898.1	100.0	1.71	1,899.0	100.0	1.87

Notes:

- (1) Calculated by dividing NPLs in each product type by gross loans and advances to customers in that product type.
- (2) Mainly comprised of advances for bank acceptance bills.

MANAGEMENT DISCUSSION AND ANALYSIS

The NPL ratio for corporate loans increased from 2.20% as of December 31, 2018 to 2.36% as of June 30, 2019, while the balance of non-performing corporate loans increased by 3.1% from RMB1,624.8 million to RMB1,675.2 million. The increase in non-performing corporate loans was mainly due to China's economic transformation and structure adjustment, which led to difficulties in operation and repayment of certain customers.

The NPL ratio for personal loans decreased from 1.80% as of December 31, 2018 to 1.46% as of June 30, 2019, while the balance of non-performing personal loans decreased by 18.5% from RMB270.6 million as of December 31, 2018 to RMB220.5 million as of June 30, 2019. The decrease in the balance of NPLs and the NPL ratio for personal loans was mainly due to the Bank's write-off of personal loans eligible for write-off. Among them, the NPL ratio for personal consumption loans increased from 2.67% as of December 31, 2018 to 4.22% as of June 30, 2019, mainly due to the decrease in the overall scale of consumption loans; the NPL ratio for personal business loans decreased from 9.92% as of December 31, 2018 to 4.81% as of June 30, 2019, mainly due to an increased amount of personal business loans eligible for write-off and the overall growth of personal business loans, which led to the significant decrease in the NPL ratio.

Distribution of NPLs by Geographical Region

The following table sets forth the distribution of the Group's NPLs by geographical region as of December 31, 2018 and June 30, 2019.

	As of June 30, 2019			As of December 31, 2018		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
Taiyuan	1,542.2	81.2	1.84	1,554.9	81.9	2.07
Outside Taiyuan	355.9	18.8	1.33	344.1	18.1	1.30
Total NPLs	1,898.1	100.0	1.71	1,899.0	100.0	1.87

Note:

(1) Calculated by dividing NPLs in each region by gross loans and advances to customers in that region.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowers Concentration

a. Loans to the Ten Largest Single Borrowers

In accordance with applicable PRC banking guidelines, the Group is subject to a lending limit of 10% of its net capital base to any single borrower. As of June 30, 2019, the Group's loans to the largest single borrower accounted for 8.9% of its net capital base, which was in compliance with regulatory requirements.

The following table sets forth the Group's loan exposure to the ten largest single borrowers as of the date indicated, which were all classified as normal on that date.

	Industry	As of June 30, 2019			Classification
		Amount	% of total loans	% of net capital base ⁽¹⁾	
		(in millions of RMB, except percentages)			
Borrower A	Mining	1,771.2	1.6	8.9	Normal
Borrower B	Leasing and business services	1,560.0	1.4	7.9	Normal
Borrower C	Real estate	1,290.0	1.2	6.5	Normal
Borrower D	Mining	1,160.0	1.0	5.9	Normal
Borrower E	Leasing and business services	1,120.0	1.0	5.7	Normal
Borrower F	Manufacturing	1,091.7	1.0	5.5	Normal
Borrower G	Manufacturing	1,070.0	1.0	5.4	Normal
Borrower H	Finance	1,045.0	0.9	5.3	Normal
Borrower I	Real estate	1,000.0	0.9	5.0	Normal
Borrower J	Manufacturing	1,000.0	0.9	5.0	Normal
Total		12,107.9	10.9%	61.1	

Note:

- (1) Represents loan balances as a percentage of the Group's net capital base. The net capital base is calculated in accordance with the requirements of the Capital Administration Measures and based on the Group's financial statements prepared in accordance with PRC GAAP.

As of June 30, 2019, the balance of the Group's loan to the largest single borrower amounted to RMB1,771.2 million, accounting for 1.6% of the total loans and advances to customers; the total loans to the ten largest single borrowers amounted to RMB12,107.9 million, accounting for 10.9% of the total loans and advances to customers.

MANAGEMENT DISCUSSION AND ANALYSIS

b. Credit Exposure to Ten Largest Group Customers

In accordance with applicable PRC banking guidelines, the Group's credit exposure to any single group customer is limited to not more than 15% of its net capital base. As of June 30, 2019, the Group's total loans to the largest single group customer accounted for 13.3% of its net capital base, which was in compliance with regulatory requirements.

The following table sets forth the Group's loan exposure to the ten largest group customers as of the date indicated, which were all classified as normal on that date.

Industry	As of June 30, 2019				Classification	
	Total loans	% of total loans	Credit line ⁽¹⁾	% of net capital base ⁽²⁾		
(in millions of RMB, except percentages)						
Group A	Manufacturing	2,445.7	2.2	2,637.6	13.3	Normal
Group B	Manufacturing	1,293.4	1.2	2,439.7	12.3	Normal
Group C	Manufacturing	1,118.0	1.0	2,163.0	10.9	Normal
Group D	Mining	2,030.0	1.8	2,030.0	10.2	Normal
Group E	Real estate	293.0	0.3	1,932.0	9.8	Normal
Group F	Mining	1,121.4	1.0	1,904.8	9.6	Normal
Group G	Real estate	120.0	0.1	1,877.0	9.5	Normal
Group H	Leasing and business services	1,045.0	0.9	1,864.0	9.4	Normal
Group I	Manufacturing	846.0	0.8	1,862.9	9.4	Normal
Group J	Leasing and business services	1,560.0	1.4	1,815.0	9.2	Normal
Total		11,872.5	10.7	20,526.0	103.6	

Notes:

- (1) Calculated pursuant to the applicable CBRC requirements by (i) adding up all on-balance-sheet credit amounts and off-balance-sheet credit amounts in respect of each group borrower; and (ii) deducting the total amount of security deposits, pledged certificates of deposit and government bonds in respect of each group borrower.
- (2) Represents loan balances as a percentage of the Group's net capital base. The net capital base is calculated in accordance with the requirements of the Capital Administration Measures and based on the Group's financial statements prepared in accordance with PRC GAAP.

MANAGEMENT DISCUSSION AND ANALYSIS

Loan Aging Schedule

The following table sets forth the Group's loan aging schedule as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loan	108,541.3	97.9	99,085.5	97.5
Loans past due for				
Up to 3 months ⁽¹⁾	418.8	0.4	740.3	0.7
Over 3 months up to 6 months ⁽¹⁾	80.7	0.1	272.0	0.3
Over 6 months up to 1 year ⁽¹⁾	391.6	0.4	561.7	0.6
Over 1 year up to 3 years ⁽¹⁾	1,253.2	1.1	827.4	0.8
Over 3 years ⁽¹⁾	129.5	0.1	150.9	0.1
Subtotal	2,273.8	2.1	2,552.3	2.5
Total loans and advances to customers	110,815.1	100.0	101,637.8	100.0

Note:

(1) Represents the principal amount of the loans on which principal or interest overdue as of the dates indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

Changes to Allowance for Impairment Losses

Allowance for impairment losses on loans and advances to customers decreased by 1.2% from RMB4,038.8 million as of January 1, 2019 to RMB3,990.5 million as of June 30, 2019, mainly due to the decrease in NPLs.

	As of June 30, 2019 Amount	As of December 31, 2018 Amount
	(in millions of RMB)	
Beginning of the period (January 1)	4,038.8⁽¹⁾	3,051.4 ⁽³⁾
Charge for the period	97.7	1,814.1
Released for the period	0.0	(29.2)
Transfer out	0.0	(738.2)
Recoveries	0.0	0.1
Write-off	(123.3)	(9.0)
Other changes	(22.7)	(50.4)
End of the period	3,990.5⁽²⁾	4,038.8 ⁽⁴⁾

Notes:

- (1) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.
- (2) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB3,968.0 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB22.5 million.
- (3) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB3,000.7 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB50.7 million.
- (4) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

7. GEOGRAPHICAL SEGMENTS REPORT

In presenting information on the basis of geographic segments, operating income is gathered according to the locations of the branches or subsidiary that generated the income. For the purpose of presentation, the Group categorizes such information by geographic regions. The table below sets forth the total operating income of each geographical region for the periods indicated.

	For the six months ended June 30,			
	2019		2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Taiyuan	2,059.9	83.3	2,009.8	83.4
Outside Taiyuan	412.0	16.7	399.7	16.6
Total operating income	2,471.9	100.0	2,409.5	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

8. CAPITAL ADEQUACY RATIO ANALYSIS

The Group is subject to capital adequacy requirements as promulgated by the CBRC. The following table sets forth, as of the dates indicated, relevant information relating to the Group's capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP.

	As of June 30, 2019	As of December 31, 2018
	(in millions of RMB, except percentages)	
Core tier-one capital		
– Share capital	4,868.0	4,868.0
– Qualifying portion of capital reserve	4,423.9	4,423.9
– Surplus reserve	3,318.5	3,186.8
– General reserve	2,788.4	2,788.4
– Other comprehensive income	4.0	(21.0)
– Retained earnings	829.9	1,219.7
– Qualifying portions of non-controlling interests	14.9	15.3
Total core tier-one capital	16,247.6	16,481.1
Core tier-one capital deductions	(133.2)	(139.6)
Net core tier-one capital	16,114.4	16,341.5
Other tier-one capital	2.0	2.0
Net tier-one capital	16,116.4	16,343.5
Tier-two capital	3,690.6	3,632.1
Net capital base	19,807.0	19,975.6
Total risk-weighted assets	168,586.0	153,784.6
Core tier-one capital adequacy ratio (%)	9.56	10.63
Tier-one capital adequacy ratio (%)	9.56	10.63
Capital adequacy ratio (%)	11.75	12.99

As of June 30, 2019, the Group's capital adequacy ratio was 11.75%, down 1.24 percentage points from the end of 2018; both the tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 9.56%, down 1.07 percentage points from the end of 2018. The decrease in capital adequacy ratio was mainly due to the increase in the balance of risk-weighted assets.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2019, the Group's leverage ratio was 6.07%, a decrease of 0.42 percentage point from 6.49% as of December 31, 2018. Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revision) issued by the CBRC, which has been effective since April 2015, a minimum leverage ratio of 4% is required.

9. RISK MANAGEMENT

The primary risks related to the Bank's operations include: credit risk, market risk, liquidity risk, operational risk, information technology risk, reputation risk and strategic risk. In the first half of 2019, the Bank continued to strengthen its comprehensive risk management system and adhered to a prudent risk appetite to constantly promote a vertical and independent risk management system. Through this system, the Bank was able to satisfy the relevant regulatory requirements and to ensure the sustainable development of its business. In particular, the Bank was committed to maintaining a risk management system for a balance between risk and return, to promote flexibility while strictly controlling the risks faced by the Bank, and to achieve business innovation while controlling asset quality.

Credit Risk

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. The Bank is exposed to credit risks primarily associated with corporate loan business, personal loan business and financial market business.

The Bank has built and continually improve its bank-wide credit risk management system to identify, measure, monitor, mitigate, and control risks that arise from its credit extension business. The Bank has established an effective credit management system, which covers the entire credit extension process, from application and pre-loan investigation to disbursement of funds and post-loan monitoring. The Bank implemented a unified credit system covering credit business and financial market business. All types of credit granting method and credit granting categories are included in the unified credit management, and the approver who has obtained the corresponding authorization exercises the credit approval authority.

In addition, the Bank closely monitors the quality of loans and may reclassify its corporate loans based on the results of routine and ad hoc inspections. The Bank also attaches great importance to the management of non-performing assets and invests in the continual improvement of non-performing assets disposal mechanism through a broad range of measures such as establishing and updating policy according to the prevailing regulatory environment, innovation of collection scheme, introduction of professional staff, and enhancing its review of collection by its branches and sub-branches.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank is committed to using advanced information technology systems to improve the performance of credit risk management. The Bank's credit management system enables account managers to efficiently collect and analyze customer data, such as historical transaction records and financial conditions, and provides close monitoring and timely alert on loans reaching maturity. The information technology system automatically matches credit applications to the corresponding approval procedures based on the amount of credit requested, which reduces the risk of unauthorized approval. In addition, account managers and management departments at all levels can access real-time information of overdue loans through the Bank's information technology system to control risks stemming from overdue loans.

The Bank is dedicated to striking a balance between achieving steady loan growths and maintaining a prudent culture of risk management. The Bank prepared detailed guidance on credit risk management based on the provincial, national and international economic conditions, as well as government policies and regulatory requirements. In formulating the credit policies, the Bank studies the macroeconomic environment in Shanxi Province and the PRC and analyzes the risks and uncertainties relevant to the Bank's operations. The Bank also closely follows the updates in local and national economic development plans, financial regulations and monetary policies, and adjusts the Bank's credit guidelines accordingly.

Market Risk

Market risk refers to the risk of changes in market prices caused by interest rates, exchange rates and other market factors. The Bank is exposed to market risks primarily through the assets and liabilities on the balance sheet and the commitments and guarantees off the balance sheet. The Bank's market risk management involves the identification, measuring, monitoring and control of market risks. The Bank primarily employs risk sensitivity and stress tests in measuring and monitoring market risks. The Bank adopts different quantitative measures to manage various types of market risks in the Bank's banking and trading books.

Specifically, the Bank has formulated and implemented relevant interest rate management policies, which allow it to manage interest rate risks. The Bank sets the pricing of deposit and loan products following relevant laws and regulations. The Bank uses the PBoC benchmark interest rates, funding costs, asset risks and other indicators as the basis for pricing, and determines the prices of products by considering the demand and business operations of customers, the industry in which the customers operate, the prices of competitors' products as well as the business relationship between the customers and the Bank. Based on the volatility of market interest rates, the Bank makes timely adjustments to the size and structure of assets in response to changes in the market environment, so that the maturities of the Bank's assets and liabilities can match and to ensure that its various market risk indicators meet regulatory requirements and operational needs.

As of June 30, 2019, the Bank operated a small foreign exchange business and held an insignificant amount of U.S. dollars. The Bank has put together various policies and operational procedures for its foreign exchange businesses, such as foreign currency settlement, sales and payment, and foreign currency trading, to control the relevant exchange rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity Risk

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting the Bank's liquidity include changes in the maturity profiles of the Bank's assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. The Bank is exposed to liquidity risks primarily in lending, trading and investment activities and in managing its liquidity position.

The Bank has established a liquidity risk management system and an organizational structure where its Board of Directors bears the ultimate responsibilities for the Bank's liquidity risk management and the senior management is responsible for formulating liquidity risk management strategies and policies. The Bank manages liquidity risk through monitoring the maturities of assets and liabilities to ensure it has sufficient funds readily available or at a reasonable cost to fulfill the payment obligations as they become due. The Assets and Liabilities Management Department monitors the Bank's liquidity position on a daily basis, and provides risk alerts and reminders in a timely manner. The Bank strictly observes the relevant regulatory requirements, closely monitors liquidity ratios, formulates crisis management plans, enhances liquidity risk management and regularly applies stress tests.

Operational Risk

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events, mainly covering internal and external frauds, misconduct of employees, security failure, business interruptions, information system breakdown, and so on.

The Bank has established a number of operational risk management policies and procedures, including "three lines of defense" that comprehensively manage operational risks through close cooperation among various departments. The first line of defense is formed by the various business departments at the head office, branches, and sub-branches. The second line of defense consists of the Legal and Compliance Department, who takes the lead in organizing and supervising the operational risk management work implemented by the business departments and other relevant departments. The third line of defense is constituted by the Audit Department, which is responsible for conducting independent evaluation of the operational risk management system and its implementation and monitoring the effectiveness of the operational risk management policies.

In addition, the Bank has established a bottom-up operational risk reporting system, requiring routine reports of various departments on the daily operational risk monitoring status and immediate report on significant operational risk incidents. The Bank also requires relevant departments to closely monitor the key regulatory indicators and the latest development of laws and regulations, constantly evaluate the effectiveness of the Bank's internal system, and conduct timely compliance review for new products.

MANAGEMENT DISCUSSION AND ANALYSIS

Information Technology Risk

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from the Bank's use of information technology. The Bank has set up an Information Technology Management Committee and the Legal and Compliance Department and Information Technology Department at the head office are responsible for managing information technology risks. The Bank strives to continuously improve the information technology infrastructure and the Bank's information technology management system in line with the national standards and regulatory requirements.

To ensure the security of information technology, the Bank has hired professionals to supervise the information security system and established a series of information security management measures to prevent any unauthorized network intrusions, attacks, data leakage or third-party tampering with the Bank's information system. As part of the Bank's business continuity management measures, the Bank has established a disaster backup and recovery system comprising two local active application-level centers and one off-site data-level disaster recovery center. The Bank has also established detailed contingency plans regarding the potential breakdown of the information system to ensure the continuity of operations. The Bank conducts periodic disaster drills for business continuity for important businesses.

Reputational Risk

Reputational risk refers to the risk of negative publicity and comments on the Bank due to the Bank's operations, management, and other activities or external events. The Bank takes its reputation seriously and has established an effective reputational risk management mechanism to monitor, identify, report, control, and assess the reputational risk, and at the same time manage the reputational risk emergency handling, and minimize any loss and negative impact on the Bank due to such incidents.

The Office of the Board of Directors of the Bank is responsible for undertaking management of overall reputational risks, including establishing a bank-wide reputational risk management system, and formulating basic internal policies. The Bank has also set up reputational risk incidents emergency response teams at the branches and sub-branches, so that the head office can be promptly informed upon the occurrence of material and urgent incidents and take appropriate actions accordingly.

Strategic Risk

The Bank actively evaluates and adjusts its business development strategy to enhance the Bank's adaptability in the face of unexpected market changes. The Office of Strategic Development under the Board of Directors is responsible for managing the Bank's strategic risks. The Bank identifies and formulates risk factors through cooperation between the Office of Strategic Development and the Risk Management Department; conducts regular review and study on prevailing market conditions and the Bank's business operation status to timely identify potential risks, makes prompt adjustment to the strategies and relevant implementation measures accordingly, and closely monitors the implementation of the strategies.

MANAGEMENT DISCUSSION AND ANALYSIS

10. BUSINESS REVIEW

During the Reporting Period, the Group's principal business lines comprised corporate banking, retail banking and financial markets. The following table sets forth the operating income of each business segment of the Group for the periods indicated.

	For the six months ended June 30,			
	2019		2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate banking	1,619.8	65.5	1,768.9	73.4
Retail banking	557.6	22.6	531.6	22.1
Financial markets	272.1	11.0	107.8	4.5
Others ⁽¹⁾	22.4	0.9	1.2	0.0
Total operating income	2,471.9	100.0	2,409.5	100.0

Note:

(1) Consists primarily of income that is not directly attributable to any specific segment.

Corporate banking

The Bank positions itself as a “financial steward” and a “partner of the real economy” for local governments in Shanxi Province, whereby it proactively participates in projects with key importance for local economic development in Shanxi Province, and provides corporate banking customers with a wide range of products and services, including corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services, and guarantee services.

For the six months ended June 30, 2019, the Group's operating income from corporate banking was RMB1,619.8 million, representing a year-on-year decrease of 8.4% and accounting for 65.5% of the total operating income for the same period. The decrease in operating income from corporate banking was mainly due to the decrease in the rate of return on the bill discounting business.

As of June 30, 2019, the balance of corporate loans amounted to RMB71,097.1 million, representing a decrease of 3.8% from December 31, 2018. As of the same day, total corporate deposits amounted to RMB83,764.6 million, representing an increase of 16.3% from December 31, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30, 2019, the Bank continued to improve its ability of catering to corporate banking customers' needs for differentiated financial products, and also focused on the development of fee and commission-based corporate banking business and services, continuously optimized the business structure, and enriched its product portfolio.

Retail banking

Capitalizing on its deep knowledge of the local market and the preferences of retail banking customers, the Bank focused on developing and launching various well-received retail banking products and services and established strong competitiveness in terms of distribution channels, customer base, product mix, and innovative capacities. The Bank provided a range of products and services to retail banking customers, including personal loans, deposit taking services, personal wealth management services and remittance services.

For the six months ended June 30, 2019, the Group's operating income from retail banking was RMB557.6 million, representing a year-on-year increase of 4.9% and accounting for 22.6% of the total operating income for the same period. As of June 30, 2019, the personal loan balance was RMB15,090.6 million, accounting for 13.6% of the total loans and advances to customers. As of June 30, 2019, residential mortgage loans, personal consumption loans, personal business loans, and credit card balance were RMB9,216.4 million, RMB2,201.2 million, RMB2,112.4 million and RMB1,560.6 million, accounting for 61.1%, 14.6%, 14.0% and 10.3% of the total personal loans, respectively. As of the same day, the total personal deposits amounted to RMB63,367.7 million, representing an increase of 9.3% from December 31, 2018.

Relying on quality services, the number of retail banking customers of the Group further increased during the Reporting Period, from 2,343.6 thousand as of December 31, 2018 to 2,457.1 thousand as of June 30, 2019. After years of persistent efforts, the Bank has established an extensive business network in regions within Shanxi Province showing strong economic growth. As of June 30, 2019, the Bank had one head office, ten branches, 149 sub-branches (including four sub-branches directly administered by the head office, 126 city-level sub-branches, and 19 county-level sub-branches) and one 51.0% owned subsidiary, Qingxu Village and Township Bank. In total, the Bank had 159 outlets, which covered all 11 prefecture-level cities in Shanxi Province.

During the Reporting Period, based on the comprehensive coverage of the business network, the Bank is committed to making use of advanced technologies to provide customers with convenient online and mobile financial products and services. The Bank also continuously enriched its online banking services and attracted customers with a good tailor-made user experience through technological upgrade. In addition, by integrating high-quality resources, the Bank provided professional and comprehensive financial services to high net worth individuals in the province. The newly established private banking center won 2019 China Financial Innovative Award - "Best Ten Innovative Family Trust Management Awards" (中國金融創新獎—“十佳家族信託管理創新獎”) for its outstanding services in the family trust field.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial markets

The financial markets business of the Group includes inter-bank money market transactions, repurchases transactions, inter-bank investments, bond investment and trading, and issuance of debts.

During the Reporting Period, the Bank closely monitored the changes in the macroeconomic situation, adhered to the direction of financial market policies, strengthened the monitoring and analysis of market conditions, seized business development opportunities, and rationally formulated investment strategies and actively carried out innovative business under the premise of risk control, while continuously optimizing the investment portfolio, increasing the investment in standardized bonds, and gradually adjusting the asset structure.

The financial market business continued to focus on liquidity management and to improve profitability, constantly promote new businesses, maintain risk prevention and compliance management, and continuously enhance the Bank's market activity and influence. During the six months ended June 30, 2019, the Bank was successively granted the qualifications of "2019 Renminbi Financial Bond Underwriting Market-marking Group of National Development Bank" and "Credit Risk Mitigation Tool Core Dealer of Inter-bank Dealer Association". The acquisition of such qualifications further expanded the scope of the Bank's bond underwriting and distribution business and credit risk prevention and control capabilities.

For the six months ended June 30, 2019, operating income from the Bank's financial markets business amounted to RMB272.1 million, accounting for 11.0% of its total operating income, which was a significant increase from RMB107.8 million in the same period in 2018, mainly due to a significant decrease in interest expense on financial market business resulting from the decrease in the cost of financing for interbank deposits.

Interbank Market Transactions

The Group's interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreement and sale under repurchase agreement, which mainly involves bonds and bills.

As of June 30, 2019, deposits with banks and other financial institutions were RMB1,120.3 million, accounting for 0.5% of the Group's total assets as of June 30, 2019. As of the same date, deposits from banks and other financial institutions amounted to RMB2,641.5 million, accounting for 1.2% of the Group's total liabilities as of June 30, 2019.

As of June 30, 2019, placements with banks and other financial institutions were RMB3,602.3 million, accounting for 1.5% of the Group's total assets as of June 30, 2019. As of the same date, placements from banks and other financial institutions were RMB100.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2019, financial assets purchased under resale agreements were RMB15,578.8 million, accounting for 6.5% of the Group's total assets as of June 30, 2019. As of the same date, financial assets sold under repurchase agreements were RMB9,221.9 million, accounting for 4.1% of the Group's total liabilities as of June 30, 2019.

Investment Management

The Group's investment management business mainly consists of debt securities investment and SPV investment. Specifically, debt securities include debt securities issued by PRC government, policy banks, commercial banks and other financial institutions, and enterprises. SPV investment refers to investments in trust plans, asset management plans, wealth management products, and investment funds. When making debt securities investment and SPV investment, the Bank takes into account a broad range of factors, including but not limited to risk appetite, capital consumption level and expected yields of relevant products, as well as overall economic conditions and relevant regulatory development, to achieve a better balance between risk and return.

As of June 30, 2019, the balance of bond investment was RMB30,873.8 million, representing an increase of 34.1% from December 31, 2018, mainly due to the Bank actively increased its investment in debt securities issued by PRC government and by commercial banks, according to the market conditions and its business needs.

As of June 30, 2019, the balance of SPV investment was RMB51,705.4 million, representing an increase of 0.9% from December 31, 2018. In accordance with risk management policies and investment strategies, the Bank reduced the scale of debt investment such as trust plans and asset management plans, and further increased the allocation of fund-based high liquidity assets.

Wealth Management

During the Reporting Period, the Bank actively expanded its wealth management products and services to attract a wider range of customers with different financial needs and risk tolerance, and effectively respond to the challenges of traditional banking services amid interest rate marketization. For the six months ended June 30, 2019, the amount of wealth management products issued by the Group was RMB26,896.7 million, representing a decrease of 16.2% from the six months ended June 30, 2018, mainly due to a prolonged product issue cycle and a decrease in the amount and frequency of wealth management products issued by the Bank as a result of the regulatory authority's prohibition against issuing wealth management products with a term of less than 90 days according to the "Guiding Opinions on Regulating the Asset Management Business of Financial Institutions" launched in April 2018 (the "**New Asset Management Regulations**"). As of June 30, 2019, the Group had more than 230,000 wealth management customers, a further increase from the end of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2019, the outstanding balance of wealth management products issued by the Group was RMB29,944.9 million, representing an increase of 9.4% from December 31, 2018, mainly because the Bank actively implemented the New Asset Management Regulations to increase the issuance and promotion of non-principal guaranteed wealth management products, especially demonstrated by an increase in the issuance of net-worth products and their proportion in wealth management products. For the six months ended June 30, 2019, the fee and commission income from the wealth management products issued by the Group was RMB82.0 million, representing an increase of 54.1% from the six months ended June 30, 2018, mainly due to the Bank's successful transition into net worth wealth management products, the resulting increase in the issuance of net worth products, and the reduction of the debt cost in the low interest rate environment, which all contributed the net income growth.

Debt Securities Distribution

The Bank's investment banking team provides customers with comprehensive financial services through the debt securities distribution business, to further leverage the Bank's strong capacity in managing capital market transactions, and to broaden its customer base.

The Bank obtained the preliminary and Class-B qualification for underwriting debt financing instruments issued by non-financial enterprises in October 2016 and February 2019, respectively, the latter of which allows the Bank to act as a lead underwriter in the regional market. For the six months ended June 30, 2019, the aggregate principal amount of debt securities the Bank distributed amounted to RMB17,558.0 million, representing a decrease of 32.4% from the six months ended June 30, 2018, mainly reflecting the increased number of distributing members in the bond underwriting market, and intensified market competition since 2019.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Share Capital

There was no change in the Bank's share capital during the Reporting Period. On July 18, 2019, the Bank issued 860,000,000 H Shares, which were listed on the Main Board of the Hong Kong Stock Exchange. In addition, 110,650,000 H Shares were issued pursuant to the partial exercise of the over-allotment option as set out in the Bank's prospectus, and were listed on the Main Board of the Hong Kong Stock Exchange on August 14, 2019. The total issued share capital of the Bank increased to 5,838,650,000 shares, including 970,650,000 H Shares and 4,868,000,000 Domestic Shares.

Shareholding of Top 10 Holders of Domestic Shares of the Bank

No.	Name of Shareholder	Total number of shares held at the beginning of the Reporting Period (shares)	Total number of shares held at the end of the Reporting Period (shares)	Percentage at the end of the Reporting Period (%)
1	Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司)	715,109,200	715,109,200	14.69
2	Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	600,000,000	600,000,000	12.33
3	Taiyuan Municipal Finance Bureau (太原市財政局)	466,142,486	466,142,486	9.58
4	Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)	450,657,435	450,657,435	9.26
5	Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	359,091,687	359,091,687	7.38
6	Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	300,000,000	300,000,000	6.16
7	Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	291,339,054	291,339,054	5.98
8	Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)	234,569,820	234,569,820	4.82
9	Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司)	200,000,000	200,000,000	4.11
10	Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司)	200,000,000	200,000,000	4.11
	Total	3,816,909,682	3,816,909,682	78.42

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

II. INFORMATION ON SHAREHOLDERS

Interests and Short Positions under the SFO in Hong Kong

As the shares of the Bank were not listed on the Hong Kong Stock Exchange as of June 30, 2019, as of June 30, 2019, section 336 of the SFO was not applicable.

As of the date of this Interim Report, according to the register maintained by the Bank pursuant to section 336 of the SFO, and to the best knowledge of the Bank, the following persons (other than the Directors, Supervisors and chief executives of the Bank) will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares of the Bank which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital of the Bank carrying rights to vote in all circumstances at the general meetings of any other member of our Bank:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short positions)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Shanxi State-owned Capital Investment and Operation Co., Ltd. (山西省國有資本投資運營有限公司) ("SSCIO") ⁽¹⁾	Interest in controlled corporations	Domestic Shares	1,406,430,741		24.09%	28.89%
Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司)	Beneficial owner	Domestic Shares	715,109,200		12.25%	14.69%
China Huaneng Group Co., Ltd. (中國華能集團有限公司) ⁽²⁾	Interest in controlled corporations	Domestic Shares	600,000,000		10.28%	12.33%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	Beneficial owner	Domestic Shares	600,000,000		10.28%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	Beneficial owner	Domestic Shares	466,142,486		7.98%	9.58%
	Interest in controlled corporations	H Shares	102,400,000		1.75%	10.54%
Taiyuan State-owned Investment Group Limited (太原國有投資集團有限公司)	Beneficial owner	H Shares	102,400,000		1.75%	10.54%

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short positions)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Changzhi Nanye Industry Group Co., Ltd. ⁽³⁾	Beneficial owner	Domestic Shares	450,657,435		7.72%	9.26%
	Interest in controlled corporations	Domestic Shares	234,569,820		4.02%	4.82%
Ms. WANG Yanli ⁽³⁾	Interest in controlled corporations	Domestic Shares	685,227,255		11.74%	9.26%
Changzhi Huashengyuan Mining Industry Co., Ltd. ⁽³⁾	Beneficial owner	Domestic Shares	234,569,820		4.02%	4.82%
	Interest in controlled corporations	Domestic Shares	450,657,435		7.72%	9.26%
Shanxi Lu'an Mining (Group) Co., Ltd.	Beneficial owner	Domestic Shares	359,091,687		6.15%	7.38%
Jinneng Group Co., Ltd. (晉能集團有限公司) ⁽⁴⁾	Interest in controlled corporations	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi International Electricity Group Limited Company	Beneficial owner	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi Coking Coal Group Co., Ltd.	Beneficial owner	Domestic Shares	291,339,054		4.99%	5.98%
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能集團股份有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Guotai Junan International Holdings Limited (國泰君安國際控股有限公司) ⁽⁵⁾	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short positions)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Guotai Junan (Hong Kong) Limited (國泰君安(香港)有限公司) ⁽⁶⁾	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%
Guotai Junan Financial Products Limited (國泰君安金融產品有限公司) ⁽⁶⁾	Beneficial owner	H Shares	61,300,000		1.05%	6.32%
	Beneficial owner	H Shares		61,300,000	1.05%	6.32%
China Credit Trust Co., Ltd. (中誠信託有限責任公司) ⁽⁶⁾	Interest in controlled corporations	H Shares	102,297,000		1.75%	10.54%
Harvest Fund Management Co., Ltd. (嘉實基金管理有限公司) ⁽⁶⁾	Investment manager	H Shares	102,297,000		1.75%	10.54%
Orient Fund Management Co., Ltd. (東方基金管理有限責任公司)	Trustee	H Shares	102,430,000		1.75%	10.55%
China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司)	Trustee	H Shares	102,297,000		1.75%	10.54%
Guotai Asset Management Co., Ltd. (國泰基金管理有限公司)	Investment manager	H Shares	62,044,000		1.06%	6.39%
GF Asset Management - Xumao Single Investment Asset Management Plan (廣發資管—旭茂投資單一資產管理計劃)	Trustee	H Shares	57,873,000		0.99%	5.95%

Notes:

- (1) SSCIO indirectly held 1,406,430,741 Domestic Shares, representing 24.09% equity interest in our Bank. SSCIO's shareholding in our Bank was held through several subsidiaries, including (i) Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) with 6.15% equity interest in our Bank; (ii) Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) with 4.99% equity interest in our Bank; (iii) Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) with 5.14% equity interest in our Bank; (iv) Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) with 3.43% equity interest in our Bank; (v) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) with 3.43% equity interest in our Bank; and (vi) Shanxi Investment Group Co., Ltd. (山西省投資集團有限公司) with 0.98% equity interest in our Bank.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (2) China Huaneng Group Co., Ltd. indirectly held 600,000,000 Domestic Shares, representing 10.28% equity interest in our Bank through Huaneng Capital Services Co., Ltd., in which China Huaneng Group Co., Ltd. held 61.22% equity interest. By virtue of SFO, China Huaneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Huaneng Capital Services Co., Ltd.
- (3) Mr. LI Yang held 90% equity interest in Changzhi Nanye Industry Group Co., Ltd. (“**Changzhi Nanye**”), and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan Mining Industry Co., Ltd. (“**Changzhi Huashengyuan**”).

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

- (4) Jinneng Group Co., Ltd., a subsidiary of SSCIO with 64% equity interest, indirectly held 300,000,000 Domestic Shares, representing 5.14% equity interest in our Bank through its wholly-owned subsidiary, Shanxi International Electricity Group Limited Company. By virtue of SFO, Jinneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Shanxi International Electricity Group Limited Company.
- (5) Guotai Junan International Holdings Limited was interested in the long position of 61,300,000 H Shares, representing 1.05% equity interest in our Bank, and 61,300,000 short positions in H Shares, representing 1.05% equity interest in our Bank through its wholly-owned subsidiaries, Guotai Junan (Hong Kong) Limited and Guotai Junan Financial Products Limited. By virtue of SFO, Guotai Junan International Holdings Limited and Guotai Junan (Hong Kong) Limited are deemed to be interested in the H Shares held by Guotai Junan Financial Products Limited.
- (6) China Credit Trust Co., Ltd. was interested in the long position of 102,297,000 H Shares, representing 1.75% equity interest in our Bank through its wholly-owned subsidiary Harvest Fund Management Co., Ltd. By virtue of SFO, China Credit Trust Co., Ltd. is deemed to be interested in the H Shares held by Harvest Fund Management Co., Ltd.

III. SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARE CAPITAL OF THE BANK

For details of the Shareholders holding 5% or more of the share capital of the Bank, please see “II. Information on Shareholders” above.

IV. PURCHASE, SALE AND REDEMPTION OF ANY OF THE BANK’S LISTED SECURITIES

The shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange on July 18, 2019 for the first time. From the Listing Date to the date of this Interim Report, the Bank or any of its subsidiaries did not purchase, sell or redeem any of the Bank’s listed securities.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Our Board of Directors consists of fifteen Directors, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Our Directors are elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. YAN Junsheng (閻俊生)	57	Executive Director, Chairman of the Board	February 25, 2009 (as executive Director); December 8, 2014 (as Chairman of the Board)
Mr. TANG Yiping (唐一平)	52	Executive Director, vice chairman of the Board and president	February 16, 2017
Mr. WANG Peiming (王培明)	58	Executive Director	February 16, 2013
Mr. RONG Changqing (容常青)	49	Executive Director and vice president	September 29, 2018
Mr. LI Shishan (李世山)	54	Non-executive Director	June 21, 2017
Mr. XIANG Lijun (相立軍)	42	Non-executive Director	August 8, 2018
Mr. LIU Chenhang (劉晨行)	54	Non-executive Director	May 4, 2018 ⁽²⁾
Mr. LI Yang (李楊)	32	Non-executive Director	May 4, 2018 ⁽²⁾
Mr. WANG Jianjun (王建軍)	43	Non-executive Director	August 8, 2018
Mr. JIN Haiteng (金海騰)	67	Independent non- executive Director	June 5, 2017
Mr. SUN Shihu (孫試虎)	74	Independent non- executive Director	February 24, 2017
Mr. WANG Liyan (王立彥)	62	Independent non- executive Director	September 14, 2018
Mr. DUAN Qingshan (段青山)	61	Independent non- executive Director	May 4, 2018 ⁽²⁾
Mr. SAI Zhiyi (賽志毅)	50	Independent non- executive Director	August 7, 2018
Mr. YE Xiang (葉翔)	55	Independent non- executive Director	August 8, 2019

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Notes:

- (1) The date of appointment as a Director stated here represents the date on which the relevant Director obtained the qualification approval from CBIRC Shanxi Office.
- (2) The date of appointment as a Director for each of Mr. LIU Chenhang, Mr. LI Yang and Mr. DUAN Qingshan stated here represents the date on which each of them was elected as a Director at the relevant shareholders' general meeting of our Bank. Their qualifications of directorship are subject to the approval by CBIRC Shanxi Office.

2. Supervisors

The Company Law of the PRC requires a joint stock company to establish a board of supervisors that is responsible for supervising performance of the board of directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Name	Age	Position	Date of appointment
Mr. XIE Liying (解立鷹)	52	Employees' representative Supervisor and chairman of the Board of Supervisors	July 24, 2009 (as a Supervisor); December 8, 2016 (as the chairman of the Board of Supervisors)
Mr. BI Guoyu (畢國鈺)	54	Shareholders' representative Supervisor	February 5, 2009
Ms. XU Jin (徐瑾)	42	Shareholders' representative Supervisor	December 18, 2015
Mr. XIA Guisuo (夏貴所)	56	Shareholders' representative Supervisor	May 4, 2018
Mr. WEN Qingquan (溫清泉)	45	Employees' representative Supervisor	May 13, 2019
Mr. GUO Zhenrong (郭振榮)	54	Employees' representative Supervisor	May 13, 2019
Mr. LIU Shoubao (劉守豹)	52	External Supervisor	December 18, 2015
Mr. WU Jun (吳軍)	65	External Supervisor	May 4, 2018
Mr. LIU Min (劉旻)	56	External Supervisor	May 4, 2018

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

3. Senior Management

Name	Age	Position	Date of first appointment as a member of senior management ⁽¹⁾
Mr. TANG Yiping (唐一平)	51	Executive Director, vice chairman of the Board of Directors and president	February 16, 2017
Ms. HAO Qiang (郝強)	46	Vice president	November 20, 2017
Mr. GAO Jiliang (高計亮)	53	Vice president	May 15, 2018
Mr. RONG Changqing (容常青)	49	Executive Director and vice president	December 21, 2018
Mr. ZHANG Yunfei (張雲飛)	48	Chief risk officer	May 26, 2011
Ms. HOU Xiuping (侯秀萍)	51	Chief financial officer	October 8, 2015
Mr. WEN Gensheng (溫根生)	53	Chief human resources officer	December 8, 2016
Mr. ZHAO Jiquan (趙基金)	45	Chief audit officer (chief compliance officer) and assistant to the president	April 3, 2019
Mr. ZHAO Fu (趙富)	51	Chief marketing officer	April 3, 2019
Mr. NIU Jun (牛俊)	51	Chief operation officer	April 3, 2019
Mr. LI Weiqiang (李為強)	54	Secretary to the Board of Directors	April 3, 2019
Mr. SHANGGUAN Yujiang (上官玉將)	46	Assistant to the president	April 3, 2019

Note:

- (1) The date of appointment as a member of senior management stated here represents the date on which the relevant person obtained the qualification approval from CBIRC Shanxi Office, except for the date of appointment of Mr. WEN Gensheng, which represents the date on which Mr. Wen was elected as the chief human resources officer at the relevant board meeting of our Bank. The position of chief human resources officer does not require the qualification approval from CBIRC Shanxi Office.

The qualification of Mr. ZHAO Jiquan as the chief audit officer (chief compliance officer) and assistant to the president, Mr. ZHAO Fu as the chief marketing officer, Mr. NIU Jun as the chief operation officer, Mr. LI Weiqiang as secretary to the Board of Directors and Mr. SHANGGUAN Yujiang as assistant to the president is still subject to the approval of CBIRC Shanxi Office. Therefore, the date of appointment of them represents the date on which each of them was elected by the Board at the relevant board meeting of our Bank.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Changes in Supervisors

On May 13, 2019, Mr. WEN Qingquan and Mr. GUO Zhenrong were appointed as employees' representative Supervisors.

Changes in Senior Management

On April 3, 2019, Mr. ZHAO Jiquan was appointed as our chief audit officer (chief compliance officer) and assistant to the president. Mr. ZHAO Fu was appointed as the chief marketing officer and Mr. NIU Jun was appointed as the chief operating officer of the Bank. Mr. LI Weiqiang was appointed as secretary to the Board of Directors and Mr. SHANGGUAN Yujiang was appointed as assistant to the president of the Bank.

Since the publication of the prospectus of the Bank on June 28, 2019, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

III. JOINT COMPANY SECRETARIES

Ms. HAO Qiang and Ms. YEUNG Ching Man have served as joint company secretaries of the Bank since January 25, 2019.

IV. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELATED EMPLOYEES

On June 30, 2019, the Bank was not yet listed on the Main Board of the Hong Kong Stock Exchange, so the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules was not applicable. As of the date of this Interim Report, the Bank has adopted the Model Code.

The Bank also set guidelines for the transaction in the Bank's securities by relevant employees (as defined in the Hong Kong Listing Rules), which is no less restrictive than the Model Code. Having made specific enquiry with all Directors and Supervisors in respect of the compliance with Model Code by the Directors and Supervisors, all of the Directors and Supervisors have confirmed that they have been in compliance with the Model Code throughout the period from the Listing Date to the date of this Interim Report. The Bank has also made specific enquiry with relevant employees in respect of the compliance with the guidelines for the transaction in securities of the Bank by relevant employees. The Bank is not aware of any event that violates the guidelines.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

V. INTERESTS AND SHORT POSITIONS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

As the shares of the Bank were not listed on the Hong Kong Stock Exchange as of June 30, 2019, as of June 30, 2019, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors, Supervisors and chief executives of the Bank.

As of the date of this Interim Report, the interests and short positions of the Directors, Supervisors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which were required to be recorded in the register maintained under section 352 of the SFO or to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors

Name of Director	Capacity	Class of Shares	Number of shares held directly or indirectly (long position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Mr. YAN Junsheng ⁽¹⁾	Interest of spouse	Domestic Shares	81,191	0.0014%	0.0016%
Mr. LI Yang ⁽²⁾	Interest in controlled corporations	Domestic Shares	685,227,255	11.74%	14.08%

Notes:

- (1) Ms. HAO Ronghua is Mr. YAN Junsheng's spouse, holding 81,191 Domestic Shares of our Bank. Mr. YAN Junsheng is deemed to be interested in the Domestic Shares held by Ms. HAO Ronghua under the SFO.
- (2) Mr. LI Yang held 90% equity interest in Changzhi Nanye Industry Group Co., Ltd. ("**Changzhi Nanye**"), and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan Mining Industry Co., Ltd. ("**Changzhi Huashengyuan**").

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing approximately 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

Save as disclosed above, as of the date of this Interim Report, none of the Directors, chief executives or Supervisors of the Bank or their associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

VI. NUMBER OF EMPLOYEES, REMUNERATION POLICIES, EQUITY INCENTIVE PLAN AND TRAINING PROGRAMS

As of June 30, 2019, the total number of employees of the Group reached 4,066, of which 46.5% were employees aged 30 and below, and 82.7% were employees with bachelor's degree or above. Excellent age distribution and professional talent team can help cultivate a positive and innovative corporate culture and strengthen the ability to respond to market changes and seize market opportunities. As of June 30, 2019, the Bank had 299 employees qualified for AFP certification; 31 had CFP certificates.

Believing that our Bank's sustainable growth relies on the capability and dedication of our Bank's employees, our Bank has invested significant resources in talent development. Our Bank offer a variety of training programs tailored for our employees at different levels. Our Bank actively collaborate with prestigious universities and industry associations in the PRC and overseas, so as to offer cutting-edge courses on global and domestic economy, as well as leadership and management skills, to our Bank's senior and mid-level management team. For the executive personnel at our Bank's branches and sub-branches, our Bank provide annual week-long centralized training sessions themed in management upgrade, practical skills enhancement, and team building.

In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity. Our Bank has a labor union established in accordance with PRC laws and regulations, which represents the interests of our Bank's employees and works closely with our Bank's management on labor-related issues.

VII. SHARE INCENTIVE PLAN

During the Reporting Period, the Bank did not implement any share incentive plan.

I. CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank continued to improve the transparency and accountability of its corporate governance and ensure that corporate governance practices reach a high level to protect the shareholders' interest and enhance the corporate value and commitment.

Our Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The composition of the Board of Directors and the special committees under the Board of Directors are in compliance with the requirements of the Hong Kong Listing Rules.

As of June 30, 2019, the Bank was not listed on the Main Board of the Hong Kong Stock Exchange and the Corporate Governance Code was not applicable. During the period from the Listing Date to the date of this Interim Report, the Bank has adopted the Corporate Governance Code (the "Code") in Appendix 14 to the Hong Kong Listing Rules, and has also met the requirements of the administrative measures and corporate governance for domestic commercial banks, established a good corporate governance system and adopted most of the recommended best practices in the Code.

The Bank is committed to maintaining a high standard of corporate governance. The Bank will continue to review and enhance its corporate governance to ensure compliance with the Code and meet the expectations of shareholders and potential investors of the Bank.

Shareholders' General Meeting

During the Reporting Period, the Bank held a shareholders' general meeting on April 29, 2019, at which the Bank reviewed the resolution on declaring and distributing cash dividend of RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The notification, convening and voting procedures of the above shareholders' general meeting are all in compliance with the relevant provisions of the Company Law of the PRC and the Articles of Association.

Meetings of the Board of Directors and Its Special Committees

During the Reporting Period, the Board of Directors convened three meetings, at which 49 resolutions were reviewed and approved. The special committees under the Board of Directors held 12 meetings, including three meetings of the Development and Strategy Committee, three meetings of the Audit Committee, two meetings of the Related Parties Transactions Control Committee, two meetings of the Risk Management Committee, one meeting of Nomination, Remuneration and HR Committee, and one meeting of the Consumer Rights Protection Committee, at which 38 resolutions were reviewed and passed.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Meetings of the Board of Supervisors and Its Special Committees

During the Reporting Period, the Board of Supervisors held three meetings, at which 58 resolutions were reviewed and approved. The special committees under the Board of Supervisors held six meetings, including three meetings of the Supervision Committee and three meetings of the Nomination Committee, at which 58 resolutions were reviewed and approved, among which, 25 resolutions were reviewed and approved by the Supervision Committee and 33 resolutions were reviewed and approved by the Nomination Committee.

Internal Control and Internal Audit

The Bank has established and continuously improved the effective corporate governance structure, with the shareholders' general meeting as the highest authority, the Board of Directors as the decision-making body, the Board of Supervisors as the supervisory body and the senior management as the executive body, clearly defined the rules of procedure and decision-making procedures of each governance subject of the "Shareholders' general meetings, the Board of Directors, the Board of Supervisors and the senior management" ("三會一層"), and established a scientific and reasonable corporate governance mechanism with clear responsibility, separation of powers and balances and standardized operation.

The Board of Directors has established special committees, including the Development and Strategy Committee, Nomination, Remuneration and HR Committee, Audit Committee, Risk Management Committee, Consumer Rights Protection Committee and Related Parties Transactions Control Committee; the Board of Supervisors has established Nomination Committee and Supervision Committee. Risk Management Committee, Investment Management Committee, Assets and Liabilities Management Committee, Credit Review Committee, Financial Review Committee, Information Technology Management Committee, Accountability Management Committee, Business Continuity Management Committee and Performance Appraisal Management Committee and other special committees are under the Operation Management. The Board of Directors, the Board of Supervisors and their respective special committees have all formulated corresponding rules of procedure, and the offices of the Board of Directors and the Board of Supervisors are responsible for the daily affairs of "the Shareholders' general meeting, the Board of Directors and the Board of Supervisors" to ensure the normal and orderly running of the operations management and various businesses of the Bank.

The Bank has also established an independent and vertical internal audit system that mainly comprises the Board of Directors, the Audit Committee and the Audit Department. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit Committee guides, evaluates and assesses our internal audit work, while our Audit Department of the head office carries out internal auditing at both the head office and the branch level. Our Audit Department formulates internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. Audit Department conducts both on-site inspections and off-site monitoring during

CORPORATE GOVERNANCE AND OTHER INFORMATION

routine audits on various departments and their operational and management activities. The Bank also conducts specific audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

II. USE OF PROCEEDS

The proceeds from issuance of H Shares of the Bank have been used according to the intended use as disclosed in the prospectus of the Bank. All of the net proceeds from the global offering of the Bank (after deduction of the underwriting commissions and estimated expenses payable by the Bank in connection with the global offering) of approximately RMB3,171 million (including net proceeds from over-allotment) have been used to expand the capital of the Bank to support the ongoing business growth.

As approved by the preparatory team of CBIRC Shanxi Office, the Bank issued financial bonds in the national inter-bank bond market on December 13, 2018 and the payment was completed on December 17. This tranche of bonds totaled RMB5.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 4.00%. All funds raised from this tranche of bonds have been used to optimize the matching structure of medium-to-long-term assets and liabilities, increase the source of stable medium-to-long-term liabilities and support the development of new medium-to-long-term asset business in accordance with applicable laws and approvals from regulatory authorities.

III. PROFITS AND DIVIDENDS

The Group's revenue for the six months ended June 30, 2019 and financial position as of the same date are set out in the interim financial statements in this Interim Report.

On April 3, 2019, the Board passed a resolution which proposed to declare and distribute cash dividends of RMB10.0 per 100 shares (tax inclusive), totaling RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The declaration and distribution of these dividends were approved at the shareholders' general meeting on April 29, 2019. The Bank has declared and distributed these dividends for the year ended December 31, 2018 with its internal funds on May 29, 2019.

The Bank neither recommends distributing interim dividends for the six months ended June 30, 2019 nor transfers any reserve funds to increase its share capital.

IV. MATERIAL LITIGATIONS AND ARBITRATIONS

As of June 30, 2019, the Bank was the defendant in a pending litigation with a claim amount of principal exceeding RMB10.0 million (RMB927.6 million). None of our Directors or senior management was involved in the case. The Bank set forth below details on this legal proceeding.

Litigation against the Bank Brought by Bank X

In August 2017, Bank X brought a lawsuit against the Bank in relation to a bill-related dispute before the High People's Court in the province where Bank X is located. Bank X claimed that it purchased 98 bank acceptance bills ("**2015 Case Bills**") from Bank Y on August 18, 2015 by entering into a bill repurchase agreement with Bank Y, under which Bank Y agreed to repurchase 2015 Case Bills from Bank X on October 19, 2015. Bank X then claimed that it subsequently passed 2015 Case Bills to the Bank on October 19, 2015 with the expectation that the Bank would make payment to Bank Y after the Bank received the bills, so that Bank Y would have sufficient funds to repurchase 2015 Case Bills from Bank X. Bank X further alleged that the Bank failed to make payment to Bank Y after receiving 2015 Case Bills, nor did the Bank return 2015 Case Bills to Bank X. Based on these allegations, Bank X asserted that the Bank had no legitimate reason to hold or collect on 2015 Case Bills and that our doing so had violated its rights in relation to the same bills. Bank X demanded from the Bank damage equal to the principal of 2015 Case Bills which amounted to RMB927.6 million, together with interest incurred since October 19, 2015, the maturity date of the relevant bills, as well as attorney fees and court costs. As of the date of this Interim Report, court procedures for this case had not commenced.

The Bank is of the view that Bank X's allegations have no merits. Different from Bank X's allegations, the Bank purchased 2015 Case Bills after entering into a valid and binding bank acceptance bill transfer discount contract with Bank Z ("**Contract with Bank Z**") on October 19, 2015. This purchase was reviewed and approved by our Head of Financial Market Department (金融市場部) at the time, who was then the authorized approver for interbank transactions. Subsequently, on October 19, 2015 and in the following chronological order, (i) the Bank received 2015 Case Bills at a hotel from an employee of Bank X, verified the bills' authenticity pursuant to requirements under the relevant laws and regulations governing such transactions, and confirmed that these bills were the very bills listed in Contract with Bank Z; (ii) the Bank paid full price to Bank Z under Contract with Bank Z, as evidenced by a transfer certificate showing Bank Z as the sole recipient of our Bank's payment; and (iii) the employee of Bank X, after confirming that the Bank had made full payment to Bank Z, allowed our Bank's employee to leave the hotel taking 2015 Case Bills with him. The Bank received 2015 Case Bills from an employee of Bank X, instead of one from Bank Z, because the relevant bills were physically held by Bank X's employee at the time of the transaction.

The Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills. Furthermore, neither Bank X nor Bank Y was the endorser on 2015 Case Bills. As advised by the legal advisor the Bank engaged in this case with respect to the relevant PRC laws and regulations, the Bank is of the view that there is no obligation for the Bank, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Bank made a self-inspection submission (“**January 2017 Submission**”) in January 2017 pursuant to a regulatory investigation jointly initiated by the PBoC and the CBRC in relation to transactions involving 2015 Case Bills. Subsequent to our filing of January 2017 Submission and as of the date of this Interim Report, the Bank had not received further inquiry or penalty from PRC regulatory authorities in relation to transactions involving 2015 Case Bills, except that in May 2017, the Bank received one administrative penalty issued by CBRC Shanxi Office for our Bank employee’s failure to strictly follow relevant handling procedures when we accepted 2015 Case Bills from the employee of Bank X, such as demanding and verifying identity documents of the counterparty or conducting the transaction at a proper business venue. The Bank has made timely payment for this penalty.

As advised by the legal advisor the Bank engaged in this case and based on the evidence currently available, our Bank believe it is highly unlikely for the Bank to receive unfavorable ruling in this case, primarily because, for the reasons listed below, the Bank has not infringed Bank X’s rights: (i) as stated in our Bank’s January 2017 Submission, the Bank purchased 2015 Case Bills based on Contract with Bank Z and the Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills; (ii) the Bank purchased 2015 Case Bills based on Contract with Bank Z, after paying the full price to Bank Z as stipulated under Contract with Bank Z, and undertook bill collection in accordance with relevant PRC laws and regulations. In addition, according to the relevant PRC laws and regulations, the Bank is not under any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X; and (iii) the fact that the Bank received 2015 Case Bills from an employee of Bank X does not subject the Bank to any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X, according to relevant PRC laws and regulations.

Our Directors are of the view that this dispute in relation to 2015 Case Bills is an isolated event. As of the date of this Interim Report, the Bank had not been involved in any other litigation triggered by interbank bill-related disputes where the Bank was alleged of infringing upon a counterparty’s rights. Nevertheless, to prevent occurrence of similar incidents, the Bank has enhanced our internal control procedures and risk management measures in relation to bill financing transactions, including improving our training, inspections and accountability measures that are applicable to the business. The Bank also reinforced our centralized management system for document verification. Furthermore, in line with PRC laws and regulations issued in 2016 encouraging industry-wide digitalization of bill transactions, the Bank has ceased the dealing of physical bills with face value over RMB3.0 million since January 1, 2017. Subsequently, since January 1, 2018, the Bank has ceased the dealing of physical bills with face value over RMB1.0 million. For the six months ended June 30, 2019, the transaction volume of electronic bills accounted for over 99.9% of the accumulated amount of promised payment specified in our bank acceptance bills. Unlike physical bills, our acceptance and handling of electronic bills are undertaken through a digital platform, which is subject to real-time supervision and instant tracking, therefore leaving a full and transparent record for every step of the transaction. Our Directors are of the view that the enhanced internal control measures above will assist the Bank to mitigate the risk of recurrence of similar disputes for reasons attributable to the Bank.

Based on the above, our Directors are of the view that this litigation will not have any material adverse effect on our business, financial condition, results of operations or prospects.

CORPORATE GOVERNANCE AND OTHER INFORMATION

V. PENALTIES IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, save as the matters disclosed in the section headed “Business – Legal and Administrative Proceedings” in the prospectus of the Bank, the Bank, its directors, supervisors or senior management were not investigated, administratively penalised or publicly criticized by the China Securities Regulatory Commission, publicly condemned by any stock exchange or punished by any other regulatory authorities, which would have a material adverse impact on the Bank’s operation.

VI. PERFORMANCE OF COMMITMENTS BY THE BANK AND SHAREHOLDERS HOLDING 5% OR MORE OF SHARES

For details of the shareholders holding 5% or more of the issued share capital of the Bank, please see the section headed “Changes in Share Capital and Information on Shareholders – II. Information on Shareholders” in this Interim Report.

The commitments made by the shareholders holding 5% or more of the issued share capital of the Bank as set out in this Interim Report are all in performance, and no commitment has been completely performed during the Reporting Period or has not been completely performed on schedule as of the end of the Reporting Period.

VII. ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

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

VIII. MATERIAL INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the Reporting Period, the Bank had no any material investments, or specific plans for material investments or acquisitions of material capital assets or other businesses.

IX. SUFFICIENCY OF PUBLIC FLOAT

According to the information obtained by the Bank and to the knowledge of the Directors, the Bank has maintained sufficient public float from the Listing Date to the date of this Interim Report.

X. SUBSEQUENT EVENTS

The global offering of the Bank has been completed, and 860,000,000 H Shares issued by the Bank were listed on the Main Board of the Hong Kong Stock Exchange on July 18, 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

In addition, 110,650,000 H Shares were issued pursuant to the partial exercise of the over-allotment option as set out in the Bank's prospectus, and were listed on the Main Board of the Hong Kong Stock Exchange on August 14, 2019. For details, please refer to the announcement of the Bank dated August 12, 2019.

Save as disclosed above, the Bank and its subsidiaries had no significant events subsequent to the Reporting Period.

XI. APPOINTMENT AND REMOVAL OF AUDITORS

The Shareholders have considered and approved the re-appointment of KPMG as the auditor of the Bank in 2019 and their remuneration at the 2018 Annual General Meeting held on April 29, 2019, until the end of the next annual general meeting of the Bank.

XII. AUDIT COMMITTEE

Our Board of Directors has established the Audit Committee with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and Code Provision C.3 of the Corporate Governance Code. Audit Committee is primarily responsible for (i) inspecting the compliance, as well as financial soundness and compliance with the relevant accounting standards and financial reporting procedures; (ii) monitoring internal control system, particularly with respect to core business segments, to ensure that risk management measures are rigorously followed; (iii) evaluating the effectiveness of key operational activities and their respective compliance; (iv) reviewing our annual financial reports, verifying their authenticity and accuracy, and providing relevant comments to the Board of Directors; (v) reviewing financial information and its disclosure, and overseeing the formulation and implementation of major financial policies; (vi) conducting annual audits and evaluating the effectiveness of our internal audit system; (vii) advising on the hiring or changing of external auditors and supervising their performance, while coordinating the communication between our internal and external auditors.

The Audit Committee consists of five members, being Mr. WANG Liyan, Mr. SAI Zhiyi, Mr. LIU Chenhang, Mr. SUN Shihu and Mr. YE Xiang. The chairperson of the Audit Committee is Mr. WANG Liyan with appropriate professional qualifications.

XIII. REVIEW OF THE INTERIM REPORT

The interim financial statements disclosed in this Interim Report have not been audited. KPMG has, in accordance with the International Standards on Review Engagements, reviewed the interim financial statements for the six months ended June 30, 2019 prepared by the Bank in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. Nothing has come to KPMG's attention that causes it to believe that the interim financial information as at June 30, 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Interim Report of the Bank has been reviewed and approved by the Board of Directors and its Audit Committee.

The Bank had adopted, for the first time, the International Financial Reporting Standards 16 – Leases since January 1, 2019, which had no significant impact on the financial statements of the Group. Save as disclosed above, during the Reporting Period, the Bank did not experience any other significant changes in accounting policies.

XIV. PUBLICATION OF THE INTERIM REPORT

This Interim Report was prepared in both English and Chinese versions. In the event of any discrepancies between the English version and Chinese version, the Chinese version shall prevail.

REVIEW REPORT TO THE BOARD OF DIRECTORS

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

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 82 to 195 which comprises the consolidated statement of financial position of Jinshang Bank Co., Ltd. (the “**Bank**”) and its subsidiary (collectively the “**Group**”) as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and the consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

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

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 August 2019

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	Six months ended 30 June	
		2019	2018
Interest income		4,376,553	4,283,480
Interest expense		(2,709,644)	(2,598,606)
Net interest income	4	1,666,909	1,684,874
Fee and commission income		328,234	195,109
Fee and commission expense		(20,205)	(23,816)
Net fee and commission income	5	308,029	171,293
Net trading gains	6	45,199	197,703
Net gains arising from investment securities	7	428,285	327,514
Other operating income	8	23,443	28,073
Operating income		2,471,865	2,409,457
Operating expenses	9	(799,234)	(713,932)
Impairment losses on assets	10	(898,512)	(891,993)
Share of profits of associate		13,076	26,616
Profit before tax		787,195	830,148
Income tax	11	(44,942)	(151,677)
Net profit for the period		742,253	678,471
Net profit attributable to:			
Equity shareholders of the Bank		745,401	682,782
Non-controlling interests		(3,148)	(4,311)

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	Six months ended 30 June	
		2019	2018
Net profit for the period		742,253	678,471
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	31(d)	5,070	40,081
– net movement in the impairment reserve, net of tax	31(e)	525	(11,535)
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit liability, net of tax	31(f)	(1,358)	(593)
Other comprehensive income, net of tax		4,237	27,953
Total comprehensive income		746,490	706,424
Total comprehensive income attributable to:			
Equity shareholders of the Bank		749,638	710,735
Non-controlling interests		(3,148)	(4,311)
Total comprehensive income		746,490	706,424
Basic and diluted earnings per share (in RMB)	12	0.15	0.14

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019 – UNAUDITED

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	30 June 2019	31 December 2018
Assets			
Cash and deposits with the central bank	13	21,727,640	23,589,738
Deposits with banks and other financial institutions	14	1,120,327	792,312
Placements with banks and other financial institutions	15	3,602,335	500,106
Derivative financial assets		605	–
Financial assets held under resale agreements	16	15,578,782	24,179,979
Loans and advances to customers	17	107,385,713	98,118,139
Financial investments:	18		
– Financial investments at fair value through profit or loss		29,190,426	24,251,888
– Financial investments at fair value through other comprehensive income		6,225,729	5,042,827
– Financial investments at amortised cost		49,512,376	47,469,934
Interest in associate	19	264,773	251,698
Property and equipment	21	1,434,118	746,626
Deferred tax assets	22	1,444,323	1,268,752
Other assets	23	1,361,427	1,035,843
Total assets		238,848,574	227,247,842
Liabilities and equity			
Liabilities			
Borrowing from the central bank		870,000	590,000
Deposits from banks and other financial institutions	24	2,641,466	2,513,697
Placements from banks and other financial institutions.	25	100,109	100,000
Financial assets sold under repurchase agreements	26	9,221,874	8,680,430
Deposits from customers	27	161,810,045	144,896,805
Income tax payable		201,998	106,219
Debt securities issued	28	44,786,756	51,288,864
Other liabilities	29	2,960,647	3,075,838
Total liabilities		222,592,895	211,251,853

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	30 June 2019	31 December 2018
Equity			
Share capital	30	4,868,000	4,868,000
Capital reserve	31(a)	4,423,893	4,423,893
Surplus reserve	31(b)	3,318,457	3,186,830
General reserve	31(c)	2,788,427	2,788,427
Fair value reserve	31(d)	(12,865)	(17,935)
Impairment reserve	31(e)	17,740	17,215
(Deficit)/surplus on remeasurement of net defined benefit liability	31(f)	(833)	525
Retained earnings	32	829,911	702,937
Total equity attributable to equity shareholders of the Bank		16,232,730	15,969,892
Non-controlling interests		22,949	26,097
Total equity		16,255,679	15,995,989
Total liabilities and equity		238,848,574	227,247,842

Approved and authorised for issue by the board of directors on 28 August 2019.

Yan Junsheng
*Chairman of the
Board of Directors*

Tang Yiping
President

Hou Xiuping
Chief Financial Officer

(Company chop)

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

		Attributable to equity shareholders of the Bank										
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus/ (deficit) on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
	Note											
Balance at 31 December 2017		3,268,000	5,098,849	3,055,203	2,561,259	(86,744)	-	533	745,719	14,642,819	33,475	14,676,294
Balance at 1 January 2018 adjusted		3,268,000	5,098,849	3,055,203	2,561,259	(71,583)	38,541	533	238,249	14,189,051	22,766	14,211,817
Changes in equity for the period:												
Net profit for the period		-	-	-	-	-	-	-	682,782	682,782	(4,311)	678,471
Other comprehensive income		-	-	-	-	40,081	(11,535)	(593)	-	27,953	-	27,953
Total comprehensive income		-	-	-	-	40,081	(11,535)	(593)	682,782	710,735	(4,311)	706,424
Capital contribution by equity shareholders	31(a)	1,600,000	(674,956)	-	-	-	-	-	-	925,044	-	925,044
Appropriation of profit		-	-	-	-	-	-	-	(486,800)	(486,800)	-	(486,800)
- Appropriation to shareholders	32	-	-	-	-	-	-	-	(486,800)	(486,800)	-	(486,800)
Balance at 30 June 2018		4,868,000	4,423,893	3,055,203	2,561,259	(31,502)	27,006	(60)	434,231	15,338,030	18,455	15,356,485

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

Attributable to equity shareholders of the Bank

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus/ (deficit) on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 July 2018		4,868,000	4,423,893	3,055,203	2,561,259	(31,502)	27,006	(60)	434,231	15,338,030	18,455	15,356,485
Changes in equity for the period:												
Net profit for the period		-	-	-	-	-	-	-	627,501	627,501	7,642	635,143
Other comprehensive income		-	-	-	-	13,567	(9,791)	585	-	4,361	-	4,361
Total comprehensive income		-	-	-	-	13,567	(9,791)	585	627,501	631,862	7,642	639,504
Capital contribution by equity shareholders	31(a)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of profit												
- Appropriation to surplus reserve	31(b)	-	-	131,627	-	-	-	-	(131,627)	-	-	-
- Appropriation to general reserve	31(c)	-	-	-	227,168	-	-	-	(227,168)	-	-	-
- Appropriation to shareholders	32	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018		4,868,000	4,423,893	3,186,830	2,788,427	(17,935)	17,215	525	702,937	15,969,892	26,097	15,995,989

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

		Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus/ (deficit) on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January, 2019		4,868,000	4,423,893	3,186,830	2,788,427	(17,935)	17,215	525	702,937	15,969,892	26,097	15,995,989
Changes in equity for the period:												
Net profit for the period		-	-	-	-	-	-	-	745,401	745,401	(3,148)	742,253
Other comprehensive income		-	-	-	-	5,070	525	(1,358)	-	4,237	-	4,237
Total comprehensive income		-	-	-	-	5,070	525	(1,358)	745,401	749,638	(3,148)	746,490
Capital contribution by equity shareholders	31(a)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of profit												
– Appropriation to surplus reserve	31(b)	-	-	131,627	-	-	-	-	(131,627)	-	-	-
– Appropriation to general reserve	31(c)	-	-	-	-	-	-	-	-	-	-	-
– Appropriation to shareholders	32	-	-	-	-	-	-	-	(486,800)	(486,800)	-	(486,800)
Balance at 30 June 2019		4,868,000	4,423,893	3,318,457	2,788,427	(12,865)	17,740	(833)	829,911	16,232,730	22,949	16,255,679

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Six months ended 30 June	
	2019	2018
Cash flows from operating activities		
Profit before tax	787,195	830,148
<i>Adjustments for:</i>		
Impairment losses on assets	898,512	891,993
Depreciation and amortization	128,292	61,613
Accreted interest on credit-impaired	(22,732)	(26,167)
Unrealized foreign exchange gains	(7)	(235)
Net (gains)/losses on disposal of property and equipment	(11)	40
Net trading gains	(45,192)	(197,468)
Net gains on disposal of investment securities	(428,285)	(327,514)
Share of profits of associate	(13,076)	(26,616)
Interest expense on debts securities issued	935,570	822,998
	2,240,266	2,028,792
<i>Changes in operating assets</i>		
Net decrease/(increase) in deposits with the central bank	1,988,156	(1,487,086)
Net increase in deposits with banks and other financial institutions	(100,000)	–
Net increase in loans and advances to customers	(9,461,523)	(7,490,207)
Net decrease in financial assets held under resale agreements	8,597,016	364,287
Net decrease/(increase) in other operating assets	39,823	(669,836)
	1,063,472	(9,282,842)

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Six months ended 30 June	
	2019	2018
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowing from the central bank	280,000	(1,025,000)
Net increase/(decrease) in deposits from banks and other financial institutions	143,592	(5,396,462)
Net decrease in placements from banks and other financial institutions	–	(500,000)
Net increase/(decrease) in financial assets sold under repurchase agreements	542,372	(1,992,925)
Net increase in deposits from customers	16,417,196	4,019,126
Income tax paid	(126,146)	(379,564)
Net decrease in other operating liabilities	(346,967)	(3,007,958)
	16,910,047	(8,282,783)
Net cash flows generated from/(used in) operating activities	20,213,785	(15,536,833)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	59,020,911	55,360,680
Gains received from investment activities	422,777	322,905
Proceeds from disposal of property and equipment and other assets	518	118
Payments on acquisition of investments	(67,601,020)	(48,499,370)
Payments on acquisition of property and equipment, intangible assets and other assets	(746,804)	(36,096)
Net cash flows (used in)/generated from investing activities	(8,903,618)	7,148,237

The notes on pages 92 to 195 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2019 – UNAUDITED
(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	Six months ended 30 June	
		2019	2018
Cash flows from financing activities			
Proceeds from capital contribution by equity shareholders		–	925,044
Proceeds from debt securities issued		19,441,191	32,721,102
Repayment of debt securities issued		(26,100,000)	(23,570,000)
Interest paid on debt securities issued		(778,869)	(765,475)
Dividends paid		(376,745)	(458,510)
Repayment of lease liabilities		(33,326)	–
Interest paid on lease liabilities		(11,570)	–
Net cash flows (used in)/generated from financing activities		(7,859,319)	8,852,161
Effect of foreign exchange rate changes on cash and cash equivalents		63	(1,252)
Net increase in cash and cash equivalents	33(a)	3,450,911	462,313
Cash and cash equivalents as at 1 January		7,202,528	6,953,643
Cash and cash equivalents as at 30 June	33(b)	10,653,439	7,415,956
Interest received		4,282,195	4,379,019
Interest paid (excluding interest expense on debt securities issued)		(1,299,261)	(1,604,393)

The notes on pages 92 to 195 form part of this interim financial report.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

1 BACKGROUND INFORMATION

Jinshang Bank Co., Ltd. (the “**Bank**”) (formerly Taiyuan City Commercial Bank Co., Ltd.) commenced business as a city commercial bank on 16 October 1998, according to the Approval on Commencement of Taiyuan City Commercial Bank Co., Ltd. 《關於太原市商業銀行開業的批覆》 (YinFu [1998] No. 323) by People’s Bank of China (the “**PBoC**”). According to the Approval on Change of Name for Taiyuan City Commercial Bank Co., Ltd. 《關於太原市商業銀行更名的批覆》 (YinJianFu [2008] No. 569) by the former China Banking Regulatory Commission (the former “**CBRC**”), Taiyuan City Commercial Bank Co., Ltd. was renamed as Jinshang Bank Co., Ltd. on 30 December 2008.

The Bank has been approved by the former CBRC (Shanxi Branch) to hold financial business permit (No. B0116H214010001) and approved by the Shanxi Provincial Administration for Industry and Commerce for the business license (credibility code: 911400007011347302). By 30 June 2019, the registered capital of the Bank was RMB4,868,000,000, with its registered office located at No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province. The Bank is regulated by the China Banking Insurance Regulatory Commission (the “**CBIRC**”) authorized by the State Council.

In July 2019, the Bank’s H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 2558).

The principle activities of the Bank and its subsidiary (collectively the “**Group**”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBIRC.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”).

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

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

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

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

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual financial statements for that financial year but is derived from those financial statements.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

3 CHANGES IN ACCOUNTING POLICES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted IFRS 16 *Leases* ("IFRS 16") from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

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

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019, with no restatement of comparative information.

The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

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

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

3 CHANGES IN ACCOUNTING POLICES (continued)

B. As a lessee under operating leases

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes its assessment of whether a purchase or extension option is reasonably certain to be exercised or termination option is reasonably certain not to be exercised.

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

3 CHANGES IN ACCOUNTING POLICES (continued)

B. As a lessee under operating leases (continued)

ii. Transition

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019, Right-of-use assets are measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

3 CHANGES IN ACCOUNTING POLICES (continued)

C. Impacts on financial statements.

i. Impacts on transition

On 1 January 2019, the Bank recognised approximately RMB571 million of right-of-use assets (including prepaid or accrued lease payments approximately RMB55 million which had already been recognised in the consolidated statement of financial position) and approximately RMB516 million of lease liabilities.

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

Operating lease commitment at 31 December 2018 as disclosed	693,786
Discounted using the incremental borrowing rate at 1 January 2019	611,292
Recognition exemption for	
– short-term leases	(95,422)
– leases of low-value assets	(82)
Lease liabilities recognised at 1 January 2019	515,788

ii. Impact for the period

As a result of initially applying IFRS 16, the Group recognised approximately RMB535 million of right-of-use assets and approximately RMB512 million of lease liabilities as at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During six months ended 30 June 2019, the Group recognised approximately RMB54 million of depreciation charges and approximately RMB12 million of interest costs from these leases.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

4 NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Interest income arising from		
Deposits with the central bank	131,200	165,319
Deposits with banks and other financial institutions	15,919	16,159
Placements with banks and other financial institutions	30,876	5,743
Loans and advances to customers		
– Corporate loans and advances	2,031,937	1,979,119
– Personal loans	354,794	356,468
– Discounted bills	411,455	458,772
Financial assets held under resale agreements	169,369	132,954
Financial investments	1,231,003	1,168,946
Sub-total	4,376,553	4,283,480
Interest expense arising from		
Borrowing from the central bank	(10,468)	(3,564)
Deposits from banks and other financial institutions	(52,544)	(210,942)
Placements from banks and other financial institutions	(8,117)	(309)
Deposits from customers	(1,616,434)	(1,482,708)
Financial assets sold under repurchase agreements	(74,941)	(78,085)
Debt securities issued	(935,570)	(822,998)
Lease liabilities	(11,570)	–
Sub-total	(2,709,644)	(2,598,606)
Net interest income	1,666,909	1,684,874

Interest income arising from loans and advances to customers included RMB23 million for the six months ended 30 June 2019 with respect to the accreted interest on credit-impaired loans (six months ended 30 June 2018: RMB26 million).

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

5 NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Six months ended 30 June	
	2019	2018
Fee and commission income		
Agency services fees and others	111,612	46,613
Wealth management business fees	81,986	53,162
Acceptance and guarantee services fees	73,381	60,263
Settlement and clearing fees	32,674	19,381
Bank card services fees	28,581	15,690
Sub-total	328,234	195,109
Fee and commission expense		
Settlement and clearing fees	(10,544)	(11,697)
Others	(9,661)	(12,119)
Sub-total	(20,205)	(23,816)
Net fee and commission income	308,029	171,293

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

5 NET FEE AND COMMISSION INCOME (continued)

(b) Disaggregation of income:

	Six months ended 30 June			
	2019		2018	
	At a point in time	Over time	At a point in time	Over time
Agency services fees and others	111,612	–	46,613	–
Wealth management business fees	–	81,986	–	53,162
Acceptance and guarantee services fees	–	73,381	–	60,263
Settlement and clearing fees	32,674	–	19,381	–
Bank card services fees	28,581	–	15,690	–
Total	172,867	155,367	81,684	113,425

6 NET TRADING GAINS

	Six months ended 30 June	
	2019	2018
Net gains from funds	43,547	104,073
Net gains from investment management products	7,008	76,279
Net gains from equity investments	3,373	16,140
Exchange gain	7	235
Net gains from interbank deposits issued	6	1,894
Net losses from debt securities	(8,742)	(918)
Total	45,199	197,703

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

7 NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended 30 June	
	2019	2018
Net gains of financial investments at fair value through profit or loss	425,621	329,157
Net gains/(losses) of financial investments at fair value through other comprehensive income	2,664	(1,643)
Total	428,285	327,514

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
Rental income	700	456
Penalty income	584	1,000
Government grants	300	1,244
Long-term unwithdrawn items income	37	162
Net gains on disposal of property and equipment	11	1
Others	21,811	25,210
Total	23,443	28,073

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

9 OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
Staff costs		
– Salaries, bonuses and allowances	318,323	316,042
– Social insurance and annuity	110,507	101,481
– Housing allowances	33,583	25,390
– Staff welfares	9,542	8,156
– Employee education expenses and labour union expenses	17,397	17,997
– Supplementary retirement benefits	3,640	1,680
– Others	5,727	1,317
Sub-total	498,719	472,063
Rental and property management expenses	47,561	71,405
Depreciation and amortization	128,292	61,613
Taxes and surcharges	33,218	28,496
Other general and administrative expenses	91,444	80,355
Total	799,234	713,932

10 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2019	2018
Financial investments	713,517	(81,895)
Loans and advances to customers	97,737	936,765
Credit commitments	85,499	5,984
Deposits with banks and other financial institutions	104	(60)
Placements with banks and other financial institutions	16	(7)
Others	1,639	31,206
Total	898,512	891,993

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

11 INCOME TAX EXPENSE

(a) Income tax:

	Note	Six months ended 30 June	
		2019	2018
Current tax		221,926	143,304
Deferred tax	22(b)	(176,984)	8,373
Total		44,942	151,677

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

	Note	Six months ended 30 June	
		2019	2018
Profit before tax		787,195	830,148
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		196,799	207,537
Non-deductible expenses		4,891	1,305
Non-taxable income	(i)	(156,748)	(57,165)
Income tax		44,942	151,677

- (i) The non-taxable income mainly represents the interest income arising from the People's Republic of China (the "PRC") government bonds, and dividends from domestic enterprises.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

12 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended 30 June	
		2019	2018
Net profit attributable to equity shareholders of the Bank		745,401	682,782
Weighted average number of ordinary shares (in thousands)	(a)	4,868,000	4,864,834
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.15	0.14

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

(a) Weighted average number of ordinary shares (in thousands)

	Six months ended 30 June	
	2019	2018
Number of ordinary shares at the beginning of the period	4,868,000	3,268,000
Weighted average number of ordinary shares issued during the period	–	1,596,834
Weighted average number of ordinary shares	4,868,000	4,864,834

The Bank has received cash injection amounting to RMB4,190 million and RMB914 million from the investors to subscribe 1,313,479,624 shares and 286,520,376 shares in 2017 and 2018, respectively. The Bank obtained approval from the former Shanxi Bureau of the China Banking Regulatory Commission on Approving Changes in Registered Capital of Jinshang Bank Co., Ltd. 《山西銀監局關於同意晉商銀行變更註冊資本的批覆》(JinYin Jian Fu [2018] No. 21).

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors during the period.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

13 CASH AND DEPOSITS WITH THE CENTRAL BANK

	Note	30 June 2019	31 December 2018
Cash on hand		248,547	455,425
Deposits with the central bank			
– Statutory deposit reserves	(a)	15,235,988	16,843,388
– Surplus deposit reserves	(b)	6,199,448	5,865,032
– Fiscal deposits		36,825	417,581
Sub-total		21,472,261	23,126,001
Interests accrued		6,832	8,312
Total		21,727,640	23,589,738

- (a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of each of the Reporting Period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2019	31 December 2018
Reserve ratio for RMB deposits	10.0%	12.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiary of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBoC.

- (b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

14 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Deposits in mainland China		
– Banks	526,061	335,439
– Other financial institutions	579,280	446,537
Sub-total	1,105,341	781,976
Deposits outside mainland China		
– Banks	101	95
Sub-total	101	95
Interests accrued	15,142	10,394
Less: Provision for impairment losses	(257)	(153)
Total	1,120,327	792,312

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Placements in mainland China		
– Banks	3,600,000	500,000
Sub-total	3,600,000	500,000
Interests accrued	2,352	107
Less: Provision for impairment losses	(17)	(1)
Total	3,602,335	500,106

16 FINANCIAL ASSETS HELD UNDER RE SALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	12,810,437	20,533,588
– Other financial institutions	2,765,500	3,639,365
Sub-total	15,575,937	24,172,953
Interests accrued	2,846	7,027
Less: Provision for impairment losses	(1)	(1)
Total	15,578,782	24,179,979

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (continued)

(b) Analysed by type of collateral held

	30 June 2019	31 December 2018
Securities		
– Government	1,760,670	4,220,635
– Policy Banks	705,030	5,037,325
– Commercial banks and other financial institutions	4,094,700	825,800
Sub-total	6,560,400	10,083,760
Bank acceptances	9,015,537	14,089,193
Sub-total	15,575,937	24,172,953
Interests accrued	2,846	7,027
Less: Provision for impairment losses	(1)	(1)
Total	15,578,782	24,179,979

As at 30 June 2019 and 31 December 2018, certain financial assets held under buy out resale agreements was pledged for repurchase agreements (Note 40(f)).

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2019	31 December 2018
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	70,973,259	73,928,300
Personal loans		
– Residential mortgage loans	9,216,396	9,403,622
– Personal consumption loans	2,201,158	2,921,432
– Personal business loans	2,112,434	1,770,471
– Credit cards	1,560,620	942,191
Sub-total	15,090,608	15,037,716
Interests accrued	538,618	497,618
Less: Provision for loans and advances to customers measured at amortised cost	(3,967,961)	(4,017,266)
Sub-total	82,634,524	85,446,368
Loans and advances to customers measured at fair value through other comprehensive income:		
Corporate loans and advances	123,806	–
Discounted bills	24,627,383	12,671,771
Net loans and advances to customers	107,385,713	98,118,139

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

	30 June 2019		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	22,366,681	20.18%	5,030,237
Mining	15,194,077	13.71%	958,317
Real estate	11,998,337	10.83%	2,556,305
Wholesale and retail trade	6,410,714	5.79%	2,142,323
Leasing and commercial services	5,245,618	4.73%	1,111,393
Public administration, public security and social organisations	3,781,649	3.41%	463,639
Construction	3,002,571	2.71%	842,975
Production and supply of electric power, gas and water	1,437,275	1.30%	306,955
Transportation, storage and postal services	917,786	0.83%	410,273
Agriculture, forestry, animal husbandry and fishery	83,750	0.08%	32,360
Education	52,087	0.05%	34,287
Others	606,520	0.54%	525,950
Sub-total of corporate loans and advances	71,097,065	64.16%	14,415,014
Personal loans	15,090,608	13.62%	3,311,268
Discounted bills	24,627,383	22.22%	24,627,383
Gross loans and advances to customers	110,815,056	100.00%	42,353,665

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector (continued)

	31 December 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	22,243,650	21.89%	4,688,983
Mining	16,168,179	15.91%	1,153,717
Real estate	13,529,122	13.31%	2,928,519
Wholesale and retail trade	6,925,576	6.81%	2,322,794
Leasing and commercial services	4,321,747	4.25%	1,228,497
Public administration, public security and social organisations	4,082,833	4.02%	615,254
Construction	2,414,365	2.38%	828,994
Transportation, storage and postal services	1,891,880	1.86%	424,140
Production and supply of electric power, gas and water	1,656,072	1.63%	368,072
Agriculture, forestry, animal husbandry and fishery	142,180	0.14%	80,790
Education	53,297	0.05%	34,997
Others	499,399	0.48%	448,409
Sub-total of corporate loans and advances	73,928,300	72.73%	15,123,166
Personal loans	15,037,716	14.80%	2,803,002
Discounted bills	12,671,771	12.47%	12,671,771
Gross loans and advances to customers	101,637,787	100.00%	30,597,939

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Analysed by type of collateral

	30 June 2019	31 December 2018
Unsecured loans	6,510,571	7,508,058
Guaranteed loans	61,950,820	63,531,790
Collateralised loans	13,879,579	13,346,638
Pledged loans	28,474,086	17,251,301
Sub-total	110,815,056	101,637,787
Interests accrued	538,618	497,618
Gross loans and advances to customers	111,353,674	102,135,405
Less: Provision for loans and advances to customers measured at amortised cost	(3,967,961)	(4,017,266)
Net loans and advances to customers	107,385,713	98,118,139

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Overdue loans (exclusive interests accrued) analysed by overdue period

	30 June 2019				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	20,461	12,657	5,208	–	38,326
Guaranteed loans	257,268	316,220	1,130,491	123,297	1,827,276
Collateralised loans	141,077	133,420	117,461	5,201	397,159
Pledged loans	10	10,000	–	971	10,981
Total	418,816	472,297	1,253,160	129,469	2,273,742
As a percentage of gross loans and advances to customers	0.38%	0.42%	1.13%	0.11%	2.04%

	31 December 2018				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	11,471	8,270	913	2,790	23,444
Guaranteed loans	410,971	701,745	740,538	139,023	1,992,277
Collateralised loans	229,673	113,699	85,949	8,089	437,410
Pledged loans	88,217	10,000	–	971	99,188
Total	740,332	833,714	827,400	150,873	2,552,319
As a percentage of gross loans and advances to customers	0.72%	0.82%	0.81%	0.15%	2.50%

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances and provision for impairment losses

	30 June 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note (i))	
Total loans and advances to customers measured at amortised cost	81,732,326	2,976,234	1,893,925	86,602,485
Less: Provision for impairment losses	(2,155,995)	(579,542)	(1,232,424)	(3,967,961)
Carrying amount of loans and advances to customers measured at amortised cost	79,576,331	2,396,692	661,501	82,634,524
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	24,748,789	–	2,400	24,751,189
Net loans and advances to customers	104,325,120	2,396,692	663,901	107,385,713

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances and provision for impairment losses (continued)

	31 December 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note (i))	
Total loans and advances to customers measured at amortised cost	84,420,749	3,146,125	1,896,760	89,463,634
Less: Provision for impairment losses	(2,158,195)	(776,736)	(1,082,335)	(4,017,266)
Carrying amount of loans and advances to customers measured at amortised cost	82,262,554	2,369,389	814,425	85,446,368
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	12,668,171	–	3,600	12,671,771
Net loans and advances to customers	94,930,725	2,369,389	818,025	98,118,139

Notes:

- (i) The loans and advances are “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower’s financial difficulty, the Group having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Movements of provision for impairment losses

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

	Six months ended 30 June 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	2,158,195	776,736	1,082,335	4,017,266
Transferred:				
– to expected credit losses over the next 12 months	3,152	(2,811)	(341)	–
– to lifetime expected credit losses: not credit-impaired loans	(11,802)	16,342	(4,540)	–
– to lifetime expected credit losses: credit-impaired loans	(4,540)	(29,806)	34,346	–
Charge/(reversal) for the period	10,990	(180,919)	266,691	96,762
Write-offs	–	–	(123,335)	(123,335)
Other changes	–	–	(22,732)	(22,732)
As at 30 June 2019	2,155,995	579,542	1,232,424	3,967,961

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

	Year ended 31 December 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	2,165,296	121,422	714,017	3,000,735
Transferred:				
– to expected credit losses over the next 12 months	1,025	(1,025)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(86,731)	87,378	(647)	–
– to lifetime expected credit losses: credit-impaired loans	(31,012)	(38,109)	69,121	–
Charge for the period	109,617	607,070	1,097,313	1,814,000
Transfer out	–	–	(738,176)	(738,176)
Recoveries	–	–	83	83
Write-offs	–	–	(8,995)	(8,995)
Other changes	–	–	(50,381)	(50,381)
As at 31 December	2,158,195	776,736	1,082,335	4,017,266

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

	Six months ended 30 June 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	13,104	–	8,400	21,504
(Reversal)/charge for the period	(225)	–	1,200	975
As at 30 June	12,879	–	9,600	22,479

	Year ended 31 December 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	45,968	–	4,687	50,655
(Reversal)/charge for the year	(32,864)	–	3,713	(29,151)
As at 31 December	13,104	–	8,400	21,504

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognized in the profit or loss.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(g) Disposal of loans and advances to customers

During the six months ended 30 June 2019, the Group did not transfer any loans and advances or a portfolio of customer loans.

During the year ended 31 December 2018, the Group transferred loans and advances with gross amount of RMB1,369 million to independent third parties, and the transfer price was RMB634 million.

During the year ended 31 December 2018, the Group transferred a portfolio of customer loans with gross amount of RMB4,288 million through the asset securitization business, and the transfer price was RMB4,288 million.

18 FINANCIAL INVESTMENTS

	Note	30 June 2019	31 December 2018
Financial investments measured at fair value through profit or loss	(a)	29,190,426	24,251,888
Financial investments measured at fair value through other comprehensive income	(b)	6,225,729	5,042,827
Financial investments measured at amortised cost	(c)	49,512,376	47,469,934
Total		84,928,531	76,764,649

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

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

	30 June 2019	31 December 2018
Debt securities issued by the following institutions in mainland China		
– Government	687,228	–
– Policy banks	549,491	–
– Banks and other financial institutions	111,438	125,488
– Corporate	700,567	292,805
Sub-total	2,048,724	418,293
Unlisted	2,048,724	418,293
Interbank deposits		
– Unlisted	29,975	29,261
Investment funds		
– Unlisted	22,174,056	16,885,451
Equity investments		
– Unlisted	59,097	58,285
Investment management products		
– Unlisted	4,878,574	6,860,598
Total	29,190,426	24,251,888

Note:

As at the end of the each of the Reporting Period, there were no investments subject to material restrictions in the realization.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(b) Financial investments measured at fair value through other comprehensive income

	30 June 2019	31 December 2018
Debt securities issued by the following institutions in mainland China		
– Government	2,187,359	1,244,075
– Policy banks	587,023	488,627
– Banks and other financial institutions	495,964	197,217
– Corporate	404,006	405,190
Sub-total	3,674,352	2,335,109
Interests accrued	61,205	30,549
Unlisted	3,735,557	2,365,658
Interbank deposits		
– Unlisted	1,471,621	1,573,472
Investment management products	846,759	921,436
Interests accrued	20,602	31,071
– Unlisted	867,361	952,507
Equity investments		
– Unlisted	151,190	151,190
Total	6,225,729	5,042,827

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(b) Financial investments measured at fair value through other comprehensive income (continued)

Note:

- (i) As at the end of each of the Reporting Period, there were no investments subject to material restrictions in the realization.
- (ii) Movements of provision for impairment of financial investments measured at fair value through other comprehensive income during the period:

	Six months ended 30 June 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	1,449	–	–	1,449
Reversal for the period	(274)	–	–	(274)
Balance at 30 June	1,175	–	–	1,175

	Year ended 31 December 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	734	–	–	734
Charge for the year	715	–	–	715
Balance at 31 December	1,449	–	–	1,449

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognized in the profit or loss.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(c) Financial investments measured at amortised cost

	Note	30 June 2019	31 December 2018
Debt securities issued by the following institutions in mainland China	(i)		
– Government		20,992,834	15,947,699
– Policy banks		3,601,958	3,601,785
– Banks and other financial institutions		–	171,500
– Corporate		555,905	555,895
Interests accrued		368,842	287,579
Sub-total		25,519,539	20,564,458
Investment management products		25,155,037	27,507,848
Interests accrued		509,127	355,164
Sub-total		25,664,164	27,863,012
Less: Provision for impairment losses	(ii)	(1,671,327)	(957,536)
Total		49,512,376	47,469,934

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(c) Financial investments measured at amortised cost (continued)

Note:

- (i) As at the end of each of the Reporting Period, certain debt securities were pledged for repurchase agreements (Note 40(f)).
- (ii) Movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Six months ended 30 June 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	468,002	37,064	452,470	957,536
Transfers:				
– to lifetime expected credit losses credit-impaired	(3,363)	(37,064)	40,427	–
Charge for the period	174,235	–	539,556	713,791
Balance at 30 June	638,874	–	1,032,453	1,671,327

	Year ended 31 December 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	519,442	315,886	397,229	1,232,557
Transfers:				
– to expected credit losses over the next 12 months	77,921	(77,921)	–	–
– to lifetime expected credit losses credit-impaired	(15,335)	(164,024)	179,359	–
Reversal for the year	(114,026)	(36,877)	(124,118)	(275,021)
Balance at 31 December	468,002	37,064	452,470	957,536

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

19 INTEREST IN ASSOCIATE

	30 June 2019	31 December 2018
Interest in associate	264,773	251,698

The following list contains the Group's associate, all of which are individually immaterial to the Bank and are unlisted corporate entities whose quoted market price is not available:

Name	Percentages of equity/voting rights		Place of Incorporation/ registration	Business sector
	30 June 2019	31 December 2018		
Jinshang Consumer Finance Co., Ltd. (Jinshang Consumer Finance)	40%	40%	Shanxi, China	Consumer Finance

20 INVESTMENTS IN SUBSIDIARY

	30 June 2019	31 December 2018
Qingxu Village and Township Bank (清徐晉商村鎮銀行股份有限公司)	25,500	25,500

Qingxu Jinshang Village and Township Bank Co., Ltd (Qingxu Village and Township Bank) was incorporated on 19 January 2012, with registered capital of RMB50 million. The principal activities of Qingxu Village and Township Bank are the provision of corporate and retail banking services. As at 30 June 2019, the Bank holds 51% of equity interest and voting rights of Qingxu Village and Township Bank.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

21 PROPERTY AND EQUIPMENT

	Premises	Office equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
Cost						
As at 1 January 2018	605,952	29,441	15,316	333,623	343,918	1,328,250
Additions	205,701	6,983	212	62,560	24,837	300,293
Disposals	–	(551)	(812)	(7,877)	–	(9,240)
As at 31 December 2018	811,653	35,873	14,716	388,306	368,755	1,619,303
As at 1 January 2019	811,653	35,873	14,716	388,306	368,755	1,619,303
Additions	739,743	1,307	–	13,696	5,302	760,048
Disposals	–	(11)	–	(471)	(18,206)	(18,688)
As at 30 June 2019	1,551,396	37,169	14,716	401,531	355,851	2,360,663
Accumulated depreciation						
As at 1 January 2018	(200,432)	(20,955)	(13,516)	(278,615)	(265,410)	(778,928)
Charge for the year	(27,651)	(3,976)	(464)	(30,129)	(37,731)	(99,951)
Disposals	–	488	788	4,926	–	6,202
As at 31 December 2018	(228,083)	(24,443)	(13,192)	(303,818)	(303,141)	(872,677)
As at 1 January 2019	(228,083)	(24,443)	(13,192)	(303,818)	(303,141)	(872,677)
Charge for the period	(20,093)	(2,168)	(227)	(19,132)	(15,688)	(57,308)
Disposals	–	8	–	412	3,020	3,440
As at 30 June 2019	(248,176)	(26,603)	(13,419)	(322,538)	(315,809)	(926,545)
Net book value						
As at 31 December 2018	583,570	11,430	1,524	84,488	65,614	746,626
As at 30 June 2019	1,303,220	10,566	1,297	78,993	40,042	1,434,118

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

21 PROPERTY AND EQUIPMENT (continued)

As at 30 June 2019, the net book values of premises of which title deeds were not yet finalized were RMB695 million (31 December 2018: RMB100 million). The Group is still in the progress of applying the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant costs in obtaining the title deeds.

The net book values of premises as at the end of each of the Reporting Period are analysed by the remaining terms of the leases as follows:

	30 June 2019	31 December 2018
Held in mainland China		
– Medium-term leases (10-50 years)	1,303,220	583,570

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

22 DEFERRED TAX ASSETS

(a) Analysed by nature

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	4,840,382	1,210,096	4,186,849	1,046,712
– Accrued staff costs	508,166	127,041	578,848	144,712
– Others	516,433	129,108	339,541	84,885
	5,864,981	1,466,245	5,105,238	1,276,309
Deferred income tax liability				
– Fair value changes of financial assets	(87,687)	(21,922)	(30,229)	(7,557)
	(87,687)	(21,922)	(30,229)	(7,557)
Net balances	5,777,294	1,444,323	5,075,009	1,268,752

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

22 DEFERRED TAX ASSETS (continued)

(b) Movements of deferred tax

	Allowance for impairment losses Note (i)	Accrued staff costs	Change in fair value Note (ii)	Others	Net balance of deferred tax assets
1 January 2018	860,113	145,145	73,623	137,215	1,216,096
Recognised in profit or loss	186,599	(435)	(63,297)	(52,330)	70,537
Recognised in other comprehensive income	–	2	(17,883)	–	(17,881)
31 December 2018	1,046,712	144,712	(7,557)	84,885	1,268,752
Recognised in profit or loss	163,384	(18,123)	(12,675)	44,223	176,809
Recognised in other comprehensive income	–	452	(1,690)	–	(1,238)
30 June 2019	1,210,096	127,041	(21,922)	129,108	1,444,323

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the Reporting Period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Reporting Period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

23 OTHER ASSETS

	Note	30 June 2019	31 December 2018
Right-of-use assets	(a)	534,667	–
Prepayments for acquisition of property and equipment		370,490	434,555
Intangible assets	(b)	133,150	139,615
Land use rights	(c)	66,178	67,063
Interests receivables	(d)	62,805	88,201
Long-term deferred expenses		8,046	20,158
Repossessed assets	(e)	3,824	3,824
Other receivables		199,640	299,800
Sub-total		1,378,800	1,053,216
Less: Allowances for impairment losses		(17,373)	(17,373)
Total		1,361,427	1,035,843

(a) Right-of-use assets

	30 June 2019
Balance at 1 January 2019	570,962
Additions	18,139
Depreciation charge for the period	(54,434)
Balance at 30 June 2019	534,667

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

23 OTHER ASSETS (continued)

(b) Intangible assets

	Computer software and system development
Cost	
As at 1 January 2018	201,744
Additions	47,381
Disposals	(1,640)
As at 31 December 2018	247,485
Additions	6,691
Disposals	–
As at 30 June 2019	254,176
Accumulated amortization	
As at 1 January 2018	(86,355)
Additions	(23,076)
Disposals	1,561
As at 31 December 2018	(107,870)
Additions	(13,156)
Disposals	–
As at 30 June 2019	(121,026)
Book value	
As at 31 December 2018	139,615
As at 30 June 2019	133,150

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

23 OTHER ASSETS (continued)

(c) Land use rights

	30 June 2019	31 December 2018
Located in mainland China: 10-50 years	66,178	67,063

(d) Interests receivables

	30 June 2019	31 December 2018
Interests receivables arising from:		
Financial investments	55,228	71,670
Loans and advances to customers	7,577	16,531
Total	62,805	88,201

As at the end of each of the Reporting Period, interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(e) Repossessed assets

	30 June 2019	31 December 2018
Land use right and buildings	3,824	3,824
Less: impairment allowances	(3,824)	(3,824)
Net balances	—	—

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

24 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type of and location of counterparty

	30 June 2019	31 December 2018
Deposits in mainland China		
– Banks	2,553,761	2,469,952
– Other financial institutions	70,198	10,415
Sub-total	2,623,959	2,480,367
Interests accrued	17,507	33,330
Total	2,641,466	2,513,697

25 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Placements in mainland China		
– Banks	100,000	100,000
Interests accrued	109	–
Total	100,109	100,000

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	9,177,333	8,066,890
– Other financial institutions	40,981	609,052
Sub-total	9,218,314	8,675,942
Interests accrued	3,560	4,488
Total	9,221,874	8,680,430

(b) Analysed by type of collateral held

	30 June 2019	31 December 2018
Bank acceptance	5,040,814	2,507,442
Debt securities	4,177,500	6,168,500
Sub-total	9,218,314	8,675,942
Interests accrued	3,560	4,488
Total	9,221,874	8,680,430

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

27 DEPOSITS FROM CUSTOMERS

	30 June 2019	31 December 2018
Demand deposits		
– Corporate customers	43,590,939	36,977,376
– Individual customers	9,760,773	10,878,479
Sub-total	53,351,712	47,855,855
Time deposits		
– Corporate customers	40,173,690	35,037,004
– Individual customers	53,606,880	47,071,660
Sub-total	93,780,570	82,108,664
Pledged deposits		
– Acceptances	10,589,764	10,095,652
– Letters of credit and guarantees	479,671	284,603
– Letters of guarantees	30,419	40,989
– Others	1,208,831	2,670,192
Sub-total	12,308,685	13,091,436
Fiscal deposits	220	–
Inward and outward remittances	152,050	120,086
Interests accrued	2,216,808	1,720,764
Total	161,810,045	144,896,805

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

28 DEBT SECURITIES ISSUED

	Note	30 June 2019	31 December 2018
Interbank deposits issued	(a)	37,585,673	44,245,015
Tier-two capital debts issued	(b)	1,995,366	1,995,112
Financial bonds issued	(c)	4,998,528	4,998,249
Sub-total		44,579,567	51,238,376
Interests accrued		207,189	50,488
Total		44,786,756	51,288,864

Notes:

(a) Interbank deposit issued

- (i) During the six months ended 30 June 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB19,100 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.60% to 3.80% per annum.
- (ii) In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB64,780 million and duration between 1 to 12 months. The coupon interest rates ranged from 3.30% to 5.30% per annum.
- (iii) As at 30 June 2019, the fair value of interbank deposits issued was RMB36,981 million (31 December 2018: RMB43,738 million).

(b) Tier-two capital debts issued

- (i) The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on 19 August 2015. The coupon interest rate per annum is 5.80%. The Bank had an option to redeem the bonds at the end of the fifth year.
- (ii) As at 30 June 2019, the fair value of the tier-two capital debts issued was RMB2,032 million (31 December 2018: RMB2,034 million).

(c) Financial bonds issued

- (i) In December 2018, the Bank issued three-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 4.00%.
- (ii) As at 30 June 2019, the fair value of financial bonds issued was RMB4,996 million (31 December 2018: RMB4,986 million).

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES

	Note	30 June 2019	31 December 2018
Accrued staff cost	(a)	567,549	631,534
Lease liabilities		512,223	–
Provisions	(b)	269,036	183,537
Dividend payable		261,219	151,164
Payment and collection clearance accounts		154,060	1,512,442
Contract liabilities	(c)	54,235	45,249
Dormant accounts		25,219	21,013
Others		1,117,106	530,899
Total		2,960,647	3,075,838

(a) Accrued staff cost

	30 June 2019	31 December 2018
Salary, bonuses and allowances payable	343,827	415,861
Supplementary retirement benefits payable	40,589	49,035
Pension and annuity payable	75,743	77,116
Other social insurance payable	29,861	25,619
Housing fund payable	18,422	13,009
Others	59,107	50,894
Total	567,549	631,534

Supplementary retirement benefits

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement plan is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES (continued)

(b) Provisions

	Note	30 June 2019	31 December 2018
Provision for credit commitments	(i)	269,036	183,537

(i) Movements of provisions for credit commitments is as follows:

	Six months ended 30 June 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	168,335	12,282	2,920	183,537
Transfers				
– to expected credit losses over the next 12 months	157	(157)	–	–
– to lifetime expected credit losses not credit-impaired	(23)	23	–	–
– to lifetime expected credit losses credit-impaired	(3)	(3)	6	–
Charge for the period	86,507	74	(1,082)	85,499
Balance at 30 June	254,973	12,219	1,844	269,036

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES (continued)

(b) Provisions (continued)

	Year ended 31 December 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	169,235	476	1,723	171,434
Transfers				
– to expected credit losses over the next 12 months	200	(200)	–	–
– to lifetime expected credit losses not credit-impaired	(11)	11	–	–
– to lifetime expected credit losses credit-impaired	(9)	(64)	73	–
Charge for the year	(1,080)	12,059	1,124	12,103
Balance at 31 December	168,335	12,282	2,920	183,537

(c) Contract liabilities

As at 30 June 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB54 million (31 December 2018: RMB45 million). This amount represents income expected to be recognised in the future from acceptance and guarantee services. The Group will recognise the expected income in future as the services are provided.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

30 SHARE CAPITAL

Authorised and issued share capital

	30 June 2019	31 December 2018
Number of shares authorised, issued and fully paid at par value of RMB1 each	4,868,000	4,868,000

31 RESERVES

(a) Capital reserve

	30 June 2019	31 December 2018
Share premium	4,364,849	4,364,849
Other capital reserve	59,044	59,044
Total	4,423,893	4,423,893

(b) Surplus reserve

The surplus reserve at the end of each of the Reporting Period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

31 RESERVES (continued)

(c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis.

(d) Fair value reserve

	30 June 2019	31 December 2018
As at 1 January	(17,935)	(71,583)
Changes in fair value recognised in other comprehensive income	7,902	55,950
Transfer to profit or loss upon disposal	(1,142)	15,581
Less: deferred tax	(1,690)	(17,883)
As at 30 June/31 December	(12,865)	(17,935)

(e) Impairment reserve

	30 June 2019	31 December 2018
As at 1 January	17,215	38,541
Impairment losses recognised in other comprehensive income	700	(28,435)
Less: deferred tax	(175)	7,109
As at 30 June/31 December	17,740	17,215

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

31 RESERVES (continued)

(f) (Deficit)/Surplus on remeasurement of net defined benefit liability

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

	30 June 2019	31 December 2018
As at 1 January	525	533
Changes in fair value recognised in other comprehensive income	(1,810)	(10)
Less: deferred tax	452	2
As at 30 June/31 December	(833)	525

32 RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting on 29 April 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018 is as follows:

- Appropriation of statutory surplus reserve base on 10% of the net profit;
- Appropriation of discretionary surplus reserve base on 10% of the net profit amounted to approximately RMB132 million;
- Appropriation of general reserve amounted to approximately RMB227 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

32 RETAINED EARNINGS (continued)

(a) Appropriation of profits (continued)

In accordance with the resolution at the Bank's Annual General Meeting on 4 May 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

- Appropriation of statutory surplus reserve base on 10% of the net profit;
- Appropriation of general reserve amounted to approximately RMB444 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

As at 30 June 2019, the consolidated retained earnings attributable to equity shareholders of the Bank included an appropriation of RMB686,000 of surplus reserve made by subsidiary (31 December 2018: RMB686,000).

33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net increase in cash and cash equivalents

	Six months ended 30 June	
	2019	2018
Cash and cash equivalents as at 30 June	10,653,439	7,415,956
Less: Cash and cash equivalents as at 1 January	(7,202,528)	(6,953,643)
Net increase in cash and cash equivalents	3,450,911	462,313

(b) Cash and cash equivalents

	30 June	30 June
	2019	2018
Cash on hand	248,547	341,245
Deposits with central bank other than restricted deposits	6,199,448	6,539,928
Deposits with banks and other financial institutions	605,444	534,783
Placements with banks and other financial institutions	3,600,000	—
Total	10,653,439	7,415,956

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

34 CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

34 CAPITAL MANAGEMENT (continued)

The Group's capital adequacy ratios at 30 June 2019 and 31 December 2018 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	30 June 2019	31 December 2018
Total core tier-one capital		
– Share capital	4,868,000	4,868,000
– Qualifying portion of capital reserve	4,423,893	4,423,893
– Surplus reserve	3,318,457	3,186,830
– General reserve	2,788,427	2,788,427
– Other comprehensive income	4,042	(21,059)
– Retained earnings	829,911	1,219,673
– Qualifying portions of non-controlling interests	14,850	15,286
Core tier-one capital	16,247,580	16,481,050
Core tier-one capital deductions	(133,150)	(139,615)
Net core tier-one capital	16,114,430	16,341,435
Other tier-one capital	1,980	2,038
Net tier-one capital	16,116,410	16,343,473
Tier-two capital		
– Instruments issued and share premium	2,000,000	2,000,000
– Surplus provision for loan impairment	1,686,614	1,627,994
– Qualifying portions of non-controlling interests	3,960	4,076
Net tier-two capital	3,690,574	3,632,070
Net capital base	19,806,984	19,975,543
Total risk weighted assets	168,585,980	153,784,644
Core tier-one capital adequacy ratio	9.56%	10.63%
Tier-one capital adequacy ratio	9.56%	10.63%
Capital adequacy ratio	11.75%	12.99%

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	30 June 2019	31 December 2018
Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司)	14.69%	14.69%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	12.33%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	9.58%	9.58%
Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)	9.26%	9.26%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	6.16%	6.16%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	7.38%	7.38%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	5.98%	5.98%
Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)	4.82%	4.82%

The official names of these related parties are in Chinese. The English translation is for reference only.

(ii) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

(iii) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 19.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(a) Related parties of the Group (continued)

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(a) or their controlling shareholders.

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and major shareholders:

	Six months ended 30 June	
	2019	2018
Transactions during the period		
Interest income	13,828	17,058
Interest expense	5,723	4,700
	30 June 2019	31 December 2018
Balances at end of the period/year		
Loans and advances to customers	371,222	532,799
Other assets	416	—
Deposits from customers	3,019,106	1,677,580

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with related parties other than key management personnel (continued)

(ii) Transactions between the Bank and subsidiary:

The subsidiary of the Bank is its related party. The transactions between the Bank and its subsidiary are eliminated on combination.

	Six months ended 30 June	
	2019	2018
Transactions during the period		
Interest expense	1,765	3,889
	30 June	31 December
	2019	2018
Balances at end of the period/year		
Deposits from banks and other financial institutions	207,656	164,829

(iii) Transactions between the Bank and associates:

	Six months ended 30 June	
	2019	2018
Transactions during the period		
Interest income	12,255	12,386
Interest expense	881	385
	30 June	31 December
	2019	2018
Balances at end of the period/year		
Deposits with banks and other financial institutions	515,012	402,798
Deposits from banks and other financial institutions	56,438	1,543

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with related parties other than key management personnel (continued)

(iv) Transactions between the Bank and other related parties:

	Six months ended 30 June	
	2019	2018
Transactions during the period		
Interest income	476,885	501,935
Interest expense	211,648	200,582
Operating expenses	275,000	–
Fee and commission income	7,311	7,264
Debt securities investments	179,153	–
Debt securities transferring	566,114	–
	30 June 2019	31 December 2018
Balances at end of the period/year		
Loans and advances to customers	8,300,953	9,095,578
Other assets	53	–
Financial investments	5,592,524	8,384,323
Deposits from banks and other financial institutions	774,781	1,493,362
Deposits from customers	10,496,140	9,910,244
Bank acceptances	2,829,550	2,628,404
Letters of credit	243,656	316,319

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	Six months ended 30 June	
	2019	2018
Transactions during the period		
Interest income	110	59
Interest expense	269	279
	30 June	31 December
	2019	2018
Balances at end of the period/year		
Loans and advances to customers	3,651	5,263
Deposits from customers	8,681	8,374

(ii) Key management personnel compensation

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

	Six months ended 30 June	
	2019	2018
Key management personnel compensation	6,459	11,692

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	30 June 2019	31 December 2018
Aggregate amount of relevant loans outstanding at the end of the period/year	3,651	5,263
Maximum aggregate amount of relevant loans outstanding during the period/year	3,651	5,263

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at 30 June 2019 and 31 December 2018.

36 SEGMENT REPORTING

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

Corporate banking

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

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Treasury business

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

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

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

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	Six months ended 30 June 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	1,507,407	(363,479)	522,981	-	1,666,909
Internal net interest (expense)/income	(15,717)	819,229	(803,512)	-	-
Net interest income/(expense)	1,491,690	455,750	(280,531)	-	1,666,909
Net fee and commission income	127,086	101,763	79,180	-	308,029
Net trading gains	-	-	45,199	-	45,199
Net gains arising from investment securities	-	-	428,285	-	428,285
Other operating income	1,000	-	-	22,443	23,443
Operating income	1,619,776	557,513	272,133	22,443	2,471,865
Operating expenses	(369,961)	(360,057)	(67,885)	(1,331)	(799,234)
Impairment losses on assets	(120,326)	(64,551)	(713,635)	-	(898,512)
Share of profits of associates	-	-	-	13,076	13,076
Profit/(loss) before tax	1,129,489	132,905	(509,387)	34,188	787,195
Other segment information					
- Depreciation and amortization	59,485	57,892	10,915	-	128,292
- Capital expenditure	363,922	354,179	66,777	-	784,878
	30 June 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	94,824,026	15,238,379	127,341,846	-	237,404,251
Deferred tax assets	-	-	-	1,444,323	1,444,323
Total assets	94,824,026	15,238,379	127,341,846	1,444,323	238,848,574
Segment liabilities	101,010,203	63,874,607	57,708,085	-	222,592,895
Total liabilities	101,010,203	63,874,607	57,708,085	-	222,592,895

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	1,535,746	(228,155)	377,283	–	1,684,874
Internal net interest income/(expense)	107,414	704,405	(811,819)	–	–
Net interest income/(expense)	1,643,160	476,250	(434,536)	–	1,684,874
Net fee and commission income	98,801	55,395	17,097	–	171,293
Net trading gains	–	–	197,703	–	197,703
Net gains arising from investment securities	–	–	327,514	–	327,514
Other operating income	26,905	–	–	1,168	28,073
Operating income	1,768,866	531,645	107,778	1,168	2,409,457
Operating expenses	(352,364)	(308,433)	(51,949)	(1,186)	(713,932)
Impairment (losses)/reversal on assets	(928,698)	(45,256)	81,961	–	(891,993)
Share of profits of associates	–	–	–	26,616	26,616
Profit before tax	487,804	177,956	137,790	26,598	830,148
Other segment information					
– Depreciation and amortization	30,460	26,662	4,491	–	61,613
– Capital expenditure	16,151	14,138	2,381	–	32,670
	31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	85,366,236	14,943,847	125,669,007	–	225,979,090
Deferred tax assets	–	–	–	1,268,752	1,268,752
Total assets	85,366,236	14,943,847	125,669,007	1,268,752	227,247,842
Segment liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853
Total liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Committee of Risk Management under the Board; reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up the Department of Risk Management, Department of Credit Examination, Department of Asset and Liability Management, Department of Law and Compliance, Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk

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

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Stages of risks in financial instrument

The financial assets are categorized by the Group into the following stages to manage its financial assets' credit risk:

- Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.
- Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.
- Stage 3: Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Significant increase in credit risk (continued)

The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 30 June 2019 and 31 December 2018, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of “default” and “credit-impaired assets”

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

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(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”)

The Group adopts ECL model to measure provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

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

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

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

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

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).
- The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

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

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

As at 30 June 2019 and 31 December 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

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37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

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

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the Reporting Period.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

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

	30 June 2019				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	175,813	–	–	–	–
– Neither overdue nor credit-impaired	105,766,684	4,705,442	15,575,937	83,686,251	117,318
Sub-total	105,942,497	4,705,442	15,575,937	83,686,251	117,318
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	215,786	–	–	–	–
– Neither overdue nor credit-impaired	2,760,448	–	–	–	137,883
Sub-total	2,976,234	–	–	–	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	1,882,143	–	–	1,798,831	–
– Credit-impaired but not overdue	14,182	–	–	155,000	7,849
Sub-total	1,896,325	–	–	1,953,831	7,849
Interests accrued	538,618	17,494	2,846	959,776	–
Less: Provision for impairment losses	(3,967,961)	(274)	(1)	(1,671,327)	(13,549)
Net value	107,385,713	4,722,662	15,578,782	84,928,531	249,501

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(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) *Financial assets analysed by credit quality are summarized as follows: (continued)*

	31 December 2018				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	425,818	–	–	–	–
– Neither overdue nor credit-impaired	96,165,484	1,282,071	24,172,953	75,201,590	242,269
Sub-total	96,591,302	1,282,071	24,172,953	75,201,590	242,269
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	247,400	–	–	–	–
– Neither overdue nor credit-impaired	2,898,725	–	–	308,000	137,883
Sub-total	3,146,125	–	–	308,000	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	1,882,700	–	–	1,023,297	–
– Credit-impaired but not overdue	17,660	–	–	484,934	7,849
Sub-total	1,900,360	–	–	1,508,231	7,849
Interests accrued	497,618	10,501	7,027	704,364	–
Less: Provision for impairment losses	(4,017,266)	(154)	(1)	(957,536)	(13,549)
Net value	98,118,139	1,292,418	24,179,979	76,764,649	374,452

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Others comprise interests receivable and other receivables in other assets.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

(ii) *Financial assets analysed by credit quality are summarized as follows: (continued)*

Financial assets (exclusive interests accrued) analysed by credit quality

	30 June 2019				Provision for impairment losses			
	Stage 1	Balance Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	21,727,640	-	-	21,727,640	-	-	-	-
Deposits with banks and other financial institutions	1,105,442	-	-	1,105,442	(257)	-	-	(257)
Placements with banks and other financial institutions	3,600,000	-	-	3,600,000	(17)	-	-	(17)
Financial assets held under resale agreements	15,575,937	-	-	15,575,937	(1)	-	-	(1)
Loans and advances to customers	81,193,708	2,976,234	1,893,925	86,063,867	(2,155,995)	(579,542)	(1,232,424)	(3,967,961)
Financial investments	48,351,903	-	1,953,831	50,305,734	(638,874)	-	(1,032,453)	(1,671,327)
Other assets	117,318	137,883	7,849	263,050	(100)	(6,884)	(6,565)	(13,549)
Total	171,671,948	3,114,117	3,855,605	178,641,670	(2,795,244)	(586,426)	(2,271,442)	(5,653,112)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	24,748,789	-	2,400	24,751,189	(12,879)	-	(9,600)	(22,479)
Financial investments	6,143,922	-	-	6,143,922	(1,175)	-	-	(1,175)
Total	30,892,711	-	2,400	30,895,111	(14,054)	-	(9,600)	(23,654)
Credit commitments	35,673,004	210,331	7,564	35,890,899	(254,973)	(12,219)	(1,844)	(269,036)

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

(ii) *Financial assets analysed by credit quality are summarized as follows: (continued)*

Financial assets (exclusive interests accrued) analysed by credit quality (continued)

	31 December 2018							
	Balance			Total	Provision for impairment losses			Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	23,589,738	-	-	23,589,738	-	-	-	-
Deposits with banks and other financial institutions	782,071	-	-	782,071	(153)	-	-	(153)
Placements with banks and other financial institutions	500,000	-	-	500,000	(1)	-	-	(1)
Financial assets held under resale agreements	24,172,953	-	-	24,172,953	(1)	-	-	(1)
Loans and advances to customers	83,923,131	3,146,125	1,896,760	88,966,016	(2,158,195)	(776,736)	(1,082,335)	(4,017,266)
Financial investments	45,968,496	308,000	1,508,231	47,784,727	(468,002)	(37,064)	(452,470)	(957,536)
Other assets	242,269	137,883	7,849	388,001	(100)	(6,884)	(6,565)	(13,549)
Total	179,178,658	3,592,008	3,412,840	186,183,506	(2,626,452)	(820,684)	(1,541,370)	(4,988,506)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	12,668,171	-	3,600	12,671,771	(13,104)	-	(8,400)	(21,504)
Financial investments	4,981,207	-	-	4,981,207	(1,449)	-	-	(1,449)
Total	17,649,378	-	3,600	17,652,978	(14,553)	-	(8,400)	(22,953)
Credit commitments	27,312,383	250,365	19,359	27,582,107	(168,335)	(12,282)	(2,920)	(183,537)

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

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37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

(ii) *Financial assets analysed by credit quality are summarized as follows: (continued)*

The overall ECL rate for financial assets and credit commitments analysed by credit quality:

	30 June 2019			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	1.63%	18.83%	58.91%	3.16%
Financial assets at fair value through other comprehensive income	0.05%	N/A	80.00%	0.08%
Credit commitments	0.71%	5.81%	24.38%	0.75%

	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	1.47%	22.85%	45.16%	2.68%
Financial assets at fair value through other comprehensive income	0.08%	N/A	70.00%	0.13%
Credit commitments	0.62%	4.91%	15.08%	0.67%

As at 30 June 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB989 million (31 December 2018: RMB857 million). The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB796 million (31 December 2018: RMB736 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

(iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at 30 June 2019 and 31 December 2018.

(iv) Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the Reporting Period are as follows:

	30 June 2019	31 December 2018
Neither overdue nor impaired		
Ratings		
– AAA	30,121,176	20,956,747
– AA- to AA+	610,911	1,938,764
Sub-total	30,732,087	22,895,511
Unrated	140,389	134,330
Total	30,872,476	23,029,841

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk

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

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

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

Repricing risk

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

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

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(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(i) The following tables indicate the assets and liabilities as at the end of the Reporting Period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	30 June 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	21,727,640	292,204	21,435,436	-	-	-
Deposits with banks and other financial institutions	1,120,327	15,142	529,963	575,222	-	-
Placements with banks and other financial institutions	3,602,335	2,352	3,599,983	-	-	-
Financial assets held under resale agreements	15,578,782	2,846	15,575,936	-	-	-
Loans and advances to customers (Note (i))	107,385,713	538,618	37,437,232	38,728,988	26,967,962	3,712,913
Financial investments (Note (ii))	84,928,531	24,874,770	9,910,387	10,477,751	28,328,528	11,337,095
Others	4,505,246	4,505,246	-	-	-	-
Total assets	238,848,574	30,231,178	88,488,937	49,781,961	55,296,490	15,050,008
Liabilities						
Borrowing from the central bank	870,000	-	-	870,000	-	-
Deposits from banks and other financial institutions	2,641,466	17,507	233,959	2,390,000	-	-
Placements from banks and other financial institutions	100,109	109	-	100,000	-	-
Financial assets sold under repurchase agreements	9,221,874	3,560	9,218,314	-	-	-
Deposits from customers	161,810,045	2,216,809	85,071,319	26,468,396	47,914,576	138,945
Debt securities issued	44,786,756	207,190	14,900,588	22,685,084	4,998,528	1,995,366
Others	3,162,645	3,162,645	-	-	-	-
Total liabilities	222,592,895	5,607,820	109,424,180	52,513,480	52,913,104	2,134,311
Asset-liability gap	16,255,679	24,623,358	(20,935,243)	(2,731,519)	2,383,386	12,915,697

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(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(i) The following tables indicate the assets and liabilities as at the end of the Reporting Period by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

	31 December 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	23,589,738	881,318	22,708,420	-	-	-
Deposits with banks and other financial institutions	792,312	10,394	381,918	400,000	-	-
Placements with banks and other financial institutions	500,106	107	499,999	-	-	-
Financial assets held under resale agreements	24,179,979	7,027	24,172,952	-	-	-
Loans and advances to customers (Note (i))	98,118,139	497,618	30,434,051	32,519,900	31,182,349	3,484,221
Financial investments (Note (ii))	76,764,649	18,532,613	4,939,460	17,663,064	25,799,072	9,830,440
Others	3,302,919	3,302,919	-	-	-	-
Total assets	227,247,842	23,231,996	83,136,800	50,582,964	56,981,421	13,314,661
Liabilities						
Borrowing from the central bank	590,000	-	-	590,000	-	-
Deposits from banks and other financial institutions	2,513,697	33,330	180,367	2,300,000	-	-
Placements from banks and other financial institutions	100,000	-	-	100,000	-	-
Financial assets sold under repurchase agreements	8,680,430	4,488	8,675,942	-	-	-
Deposits from customers	144,896,805	1,720,764	71,051,919	31,253,044	40,784,531	86,547
Debt securities issued	51,288,864	50,488	8,911,748	35,333,267	4,998,249	1,995,112
Others	3,182,057	3,182,057	-	-	-	-
Total liabilities	211,251,853	4,991,127	88,819,976	69,576,311	45,782,780	2,081,659
Asset-liability gap	15,995,989	18,240,869	(5,683,176)	(18,993,347)	11,198,641	11,233,002

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

- (i) The following tables indicate the assets and liabilities as at the end of the Reporting Period by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

Notes:

- (i) As at 30 June 2019, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB947 million (31 December 2018: RMB1,355 million).
- (ii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group’s net profit or loss and equity. The following table sets forth the results of the Group’s interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	30 June 2019 (Decrease)/ Increase	31 December 2018 (Decrease)/ Increase
Change in net profit		
Up 100 bps parallel shift in yield curves	(79,914)	(101,620)
Down 100 bps parallel shift in yield curves	83,039	102,126
Change in equity		
Up 100 bps parallel shift in yield curves	(124,725)	(152,103)
Down 100 bps parallel shift in yield curves	129,681	155,176

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(ii) Interest rate sensitivity analysis (continued)

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

- Interest rate movements at the end of the Reporting Period apply to non-derivative financial instruments of the Group;
- At the end of the Reporting Period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of each of the Reporting Period are as follows:

	30 June 2019			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	21,727,522	41	77	21,727,640
Deposits with banks and other financial institutions	1,080,614	39,607	106	1,120,327
Placements with banks and other financial institutions	3,602,335	–	–	3,602,335
Financial assets held under resale agreements	15,578,782	–	–	15,578,782
Loans and advances to customers	107,385,713	–	–	107,385,713
Financial Investments (Note (i))	84,928,531	–	–	84,928,531
Others	4,505,245	–	1	4,505,246
Total assets	238,808,742	39,648	184	238,848,574
Liabilities				
Borrowing from the central bank	870,000	–	–	870,000
Deposits from banks and other financial institutions	2,641,466	–	–	2,641,466
Placements from banks and other financial institutions	100,109	–	–	100,109
Financial assets sold under repurchase agreements	9,221,874	–	–	9,221,874
Deposits from customers	161,805,980	3,940	125	161,810,045
Debt securities issued	44,786,756	–	–	44,786,756
Others	3,127,501	35,075	69	3,162,645
Total liabilities	222,553,686	39,015	194	222,592,895
Net position	16,255,056	633	(10)	16,255,679
Off-balance sheet credit commitments	35,888,059	–	2,840	35,890,899

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

	31 December 2018			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	23,589,576	83	79	23,589,738
Deposits with banks and other financial institutions	756,364	35,848	100	792,312
Placements with banks and other financial institutions	500,106	–	–	500,106
Financial assets held under resale agreements	24,179,979	–	–	24,179,979
Loans and advances to customers	98,118,139	–	–	98,118,139
Financial Investments (Note (i))	76,764,649	–	–	76,764,649
Others	3,302,916	–	3	3,302,919
Total assets	227,211,729	35,931	182	227,247,842
Liabilities				
Borrowing from the central bank	590,000	–	–	590,000
Deposits from banks and other financial Institutions	2,513,697	–	–	2,513,697
Placements from banks and other financial institutions	100,000	–	–	100,000
Financial assets sold under repurchase agreements	8,680,430	–	–	8,680,430
Deposits from customers	144,895,930	750	125	144,896,805
Debt securities issued	51,288,864	–	–	51,288,864
Others	3,147,428	34,560	69	3,182,057
Total liabilities	211,216,349	35,310	194	211,251,853
Net position	15,995,380	621	(12)	15,995,989
Off-balance sheet credit commitments	27,582,107	–	–	27,582,107

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Department of Risk Liquidity Indicator Management, Department of Asset and Liability Management, Department of Corporate Business, Department of Individual Business, Department of International Business, Department of Credit Examination, Department of Financial Market, Department of Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the asset and liability management department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	30 June 2019					Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between one year and five years	
Assets						
Cash and deposits with the central bank	15,272,813	6,447,995	6,832	-	-	21,727,640
Deposit with banks and other financial institutions	-	529,963	-	-	590,364	1,120,327
Placements with banks and other financial institutions	-	-	3,602,335	-	-	3,602,335
Financial assets held under resale agreements	-	-	14,444,113	1,134,669	-	15,578,782
Loans and advances to customers	740,800	196,571	6,899,764	40,802,634	29,832,762	107,385,713
Financial investments	604,151	23,220,023	2,716,858	10,249,403	29,424,492	84,928,531
Others	3,713,032	791,609	468	99	38	4,505,246
Total assets	20,330,796	31,186,161	27,670,370	21,176,945	51,642,439	27,584,609
Liabilities						
Borrowing from the central bank	-	-	-	-	870,000	870,000
Deposits from banks and other financial institutions	-	233,959	-	-	2,407,507	2,641,466
Placements from banks and other financial institutions	-	-	-	109	100,000	100,109
Financial assets sold under repurchase agreements	-	-	9,180,893	40,981	-	9,221,874
Deposit from customers	-	58,790,557	7,256,272	19,585,896	27,321,668	138,946
Debt securities issued	-	-	1,566,970	13,313,618	22,685,084	5,105,925
Others	-	3,070,998	-	-	54,747	36,900
Total liabilities	-	62,095,514	18,024,135	32,940,604	53,439,006	53,859,531
Net position	20,330,796	(30,909,353)	9,646,235	(11,763,659)	(1,796,567)	25,350,504

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued) (c) Liquidity risk (continued)

	31 December 2018					Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months and one year	Between three months and one year five years	
Assets						
Cash and deposits with the central bank	17,260,969	6,320,457	8,312	-	-	23,589,738
Deposit with banks and other financial institutions	-	381,918	-	7,600	402,794	792,312
Placements with banks and other financial institutions	-	-	500,106	-	-	500,106
Financial assets held under resale agreements	918,466	490,452	23,590,840	589,139	-	24,179,979
Loans and advances to customers	315,854	17,437,095	5,152,938	9,991,650	32,569,434	48,466,967
Financial investments	2,908,312	394,607	1,399,201	3,351,604	17,840,178	26,451,643
Others	-	-	-	-	-	3,302,919
Total assets	21,403,601	25,024,529	30,651,397	13,939,993	50,812,406	60,154,907
						25,261,009
Liabilities						
Borrowing from the central bank	-	-	-	-	590,000	-
Deposits from banks and other financial institutions	-	180,367	5,460	2,253	2,325,617	-
Placements from banks and other financial institutions	-	-	-	-	100,000	-
Financial assets sold under repurchase agreements	-	-	8,419,871	260,559	-	-
Deposit from customers	-	52,222,595	7,243,274	12,099,039	31,741,332	41,503,945
Debt securities issued	-	-	1,852,938	7,058,810	35,333,267	5,006,468
Others	-	3,090,086	-	-	47,791	44,180
Total liabilities	-	55,493,048	17,521,543	19,420,661	70,138,007	46,554,593
						2,124,001
Net position	21,403,601	(30,468,519)	13,129,854	(5,480,668)	(19,325,601)	13,600,314
						23,137,008

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative liabilities of the Group at the end of the Reporting Period:

	30 June 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative liabilities								
Borrowing from the central bank	870,000	894,124	-	-	-	894,124	-	-
Deposits from banks and other financial institutions	2,641,466	2,713,357	233,959	-	-	2,479,398	-	-
Placements from banks and other financial institutions	100,109	103,969	-	-	-	103,969	-	-
Financial assets sold under repurchase agreements	9,221,874	9,218,734	-	9,177,565	41,169	-	-	-
Deposits from customers	161,810,045	166,063,997	58,665,007	7,167,371	19,334,190	26,804,183	53,922,880	170,366
Debt securities issued	44,786,756	45,991,566	-	1,586,970	13,429,618	22,885,084	5,862,528	2,227,366
Other liabilities	3,162,645	3,162,645	3,070,998	-	-	54,747	36,900	-
Total non-derivative liabilities	222,592,895	228,148,392	61,969,964	17,931,906	32,804,977	53,221,505	59,822,308	2,397,732

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative liabilities								
Borrowing from the central bank	590,000	606,362	-	-	-	606,362	-	-
Deposits from banks and other financial institutions	2,513,697	2,543,337	180,367	5,400	2,625	2,354,945	-	-
Placements from banks and other financial institutions	100,000	103,969	-	-	-	103,969	-	-
Financial assets sold under repurchase agreements	8,680,430	8,677,682	-	8,416,306	261,376	-	-	-
Deposits from customers	144,896,805	145,362,673	52,005,627	7,141,902	11,930,898	31,545,892	42,650,232	88,122
Debt securities issued	51,288,864	54,092,002	-	1,891,105	7,212,214	37,012,848	5,864,194	2,111,641
Other liabilities	3,182,057	3,182,057	3,090,086	-	-	47,791	44,160	-
Total non-derivative liabilities	211,251,853	214,588,082	55,276,080	17,454,713	19,407,113	71,671,807	48,558,606	2,199,763

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(d) Operational risk

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

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of ‘robust’ risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(d) Operational risk (continued)

- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

38 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

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

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Reporting Period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

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

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

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

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, receivables with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. The carrying amounts of financial investments at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 28. The carrying amounts of other financial liabilities approximate their fair value.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the Reporting Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

	30 June 2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
<i>Financial investments at fair value through profit or loss</i>				
– debt securities	– 1,908,335	140,389	–	2,048,724
– interbank deposits	– 29,975	–	–	29,975
– investment funds	– 22,174,056	–	–	22,174,056
– equity investments	– –	59,097	–	59,097
– investment management products	– 2,543,108	2,335,466	–	4,878,574
<i>Derivative financial assets</i>	–	605	–	605
<i>Financial investments at fair value through other comprehensive income</i>				
– debt securities	– 3,735,557	–	–	3,735,557
– interbank deposits	– 1,471,621	–	–	1,471,621
– investment management products	– 867,361	–	–	867,361
– equity investments	– –	151,190	–	151,190
<i>Loans and advances to customers measured at fair value through other comprehensive income:</i>				
– corporate loans and advances	– 123,806	–	–	123,806
– discounted bills	– 24,627,383	–	–	24,627,383
Total	– 57,481,807	2,686,142	60,167,949	

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
<i>Financial investments at fair value through profit or loss</i>				
– debt securities	–	283,963	134,330	418,293
– interbank deposits	–	29,261	–	29,261
– investment funds	–	16,885,451	–	16,885,451
– equity investments	–	–	58,285	58,285
– investment management products	–	3,232,890	3,627,708	6,860,598
<i>Financial investments at fair value through other comprehensive income</i>				
– debt securities	–	2,365,658	–	2,365,658
– equity investments	–	–	151,190	151,190
– investment management products	–	952,507	–	952,507
– interbank deposits	–	1,573,472	–	1,573,472
<i>Loans and advances to customers measured at fair value through other comprehensive income:</i>				
– discounted bills	–	12,671,771	–	12,671,771
Total	–	37,994,973	3,971,513	41,966,486

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movement during the six months ended 30 June 2019 in the balance of Level 3 fair value measurements is as follows:

	Total gains or losses		Purchases, issues, sales and settlements				Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period			
	Recorded in profit or loss	Recorded in other comprehensive income	Recorded in other comprehensive income	Purchases	Issues	Sales		Settlements		
	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements	30 June 2019
Assets										
Financial assets at fair value through profit or loss										
– debt securities	134,330	-	-	6,059	-	-	-	-	-	140,389
– equity investments	58,285	-	-	812	-	-	-	-	-	59,097
– investment management products	3,627,708	-	-	7,758	-	-	-	-	(1,300,000)	2,335,466
Sub-total	3,820,323	-	-	14,629	-	-	-	-	(1,300,000)	2,534,952
Financial investments at fair value through other comprehensive income										
– equity investments	151,190	-	-	-	-	-	-	-	-	151,190
Total	3,971,513	-	-	14,629	-	-	-	-	(1,300,000)	2,686,142
										17,267

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	1 January 2018	Transfer into Level 3	Transfer out of Level 3	Total gains or losses			Purchases, issues, sales and settlements	Unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Recorded in		
Assets								
Financial assets at fair value through profit or loss								
- debt securities	131,897	-	-	2,433	-	-	-	134,330
- equity investments	898,419	-	-	34,235	-	-	(874,369)	58,285
- investment management products	5,395,468	-	-	6,240	-	-	(2,774,000)	3,627,708
- investment funds	27,173	-	-	981	-	(28,154)	-	8,764
Sub-total	6,452,957	-	-	43,889	-	(28,154)	(3,648,369)	3,820,323
Financial investments at fair value through other comprehensive income								
- equity investments	8,250	-	-	-	(35,734)	178,674	-	151,190
Total	6,461,207	-	-	43,889	(35,734)	1,178,674	(28,154)	3,971,513

During six months ended 30 June 2019 and year ended 31 December 2018, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

39 ENTRUSTED LENDING BUSINESS

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

	30 June 2019	31 December 2018
Entrusted loans	13,256,472	9,840,516
Entrusted funds	13,261,853	9,846,311

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

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

	30 June 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	35,650	150,742
– Original contractual maturity more than one year (inclusive)	2,991,484	1,501,600
Credit card commitments	5,062,568	2,701,251
Sub-total	8,089,702	4,353,593
Acceptances	25,206,002	22,081,256
Letters of credit	2,312,716	1,101,739
Letters of guarantees	282,479	45,519
Total	35,890,899	27,582,107

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Credit risk-weighted amount for credit commitments

	30 June 2019	31 December 2018
Credit risk-weighted amounts	18,808,240	14,603,981

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Capital commitments

As at the end of the Reporting Period, the Group's authorised capital commitments are as follows:

	30 June 2019	31 December 2018
Contracted but not paid for	140,382	66,035
Authorised but not contracted for	–	–
Total	140,382	66,035

(d) Outstanding litigations and disputes

As at 30 June 2019, the Group was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB1,016 million (31 December 2018: RMB1,008 million). The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's lawyers and external lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group don't recognised the litigation provision. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(e) Bonds underwriting commitments and redemption obligations

The Group has no outstanding bonds underwriting commitments at the end of the Reporting Period.

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance (“MOF”) and the PBoC.

The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at 30 June 2019 or 31 December 2018:

	30 June 2019	31 December 2018
Redemption obligations	3,391,852	3,270,826

(f) Pledged assets

(i) Assets pledged as collateral

	30 June 2019	31 December 2018
For repurchase agreements:		
– Financial investments measured at amortised cost	4,158,123	6,235,125
– Discounted bills	40,123	597,662
Total	4,198,246	6,832,787

Financial assets pledged by the Group as collateral for liabilities is mainly debt securities for repurchase agreements.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(f) Pledged assets (continued)

(ii) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Group's balance of the financial assets held under resale agreements refers to Note 16. The fair value of such collateral accepted by the Group was RMB15,576 million as at 30 June 2019 (31 December 2018: RMB24,173 million). These transactions were conducted under standard terms in the normal course of business.

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

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

	30 June 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	27,052,630	27,052,630	23,746,049	23,746,049
Financial investments at fair value through other comprehensive income	867,361	867,361	952,507	952,507
Financial investments at amortised cost	23,994,136	23,994,136	26,905,916	26,905,916
Total	51,914,127	51,914,127	51,604,472	51,604,472

As at 30 June 2019 and 31 December 2018, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(continued)

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

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2019 and 31 December 2018, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

For the six months ended 30 June 2019, the amount of fee and commission income received from the abovementioned structured entities by the Group amounted to RMB82 million (six months ended 30 June 2018: RMB53 million).

As at 30 June 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, is RMB27,252 million (31 December 2018: RMB24,079 million).

In addition, unconsolidated structured entities sponsored by the Group also include asset-backed securities. In September 2018, the Group transferred a portfolio of customer loans with book value of RMB4,175 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As at 30 June 2019, the balance of these asset-backed securities held by the Group is RMB27 million (31 December 2018: RMB214 million).

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

(c) Unconsolidated structure entities sponsored by the Group during the period which the Group does not have an interest in as at 30 June 2019:

For the six months ended 30 June 2019, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June amounted to RMB2,839 million (six months ended 30 June 2018: RMB5,846 million).

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF RMB, UNLESS OTHERWISE STATED)

42 SUBSEQUENT EVENTS

The Bank's Global Offering was completed and the H Shares of the Bank were Listed on the Main Board of the Hong Kong Stock Exchange on 18 July 2019. The Bank issued 860 million H Shares with a par value of RMB1 at an offering price of HKD3.82 per share. In addition, the over-allotment option as set out in the Prospectus was partially exercised, the bank issued 111 million H Shares with a par value of RMB1 at an offering price of HKD3.82 per share, and those H Shares were listed on the Main Board of the Hong Kong Stock Exchange on 14 August 2019.

Except for the event as disclosed above, the Group has no material events for disclosure subsequent to the end of the Reporting Period.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

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

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

(a) Liquidity coverage ratio

	30 June 2019	Average for the period ended 30 June 2019
Liquidity coverage ratio (RMB and foreign currency)	242.96%	252.96%

	31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	226.64%	149.85%

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

(b) Leverage Ratio

	30 June 2019	31 December 2018
Leverage Ratio	6.07%	6.49%

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

(c) Net Stable Funding Ratio

	30 June 2019	31 March 2019	31 December 2018
Net Stable Funding Ratio	136.13%	128.61%	130.45%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 CURRENCY CONCENTRATIONS

	30 June 2019			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	39,648	55	128	39,831
Spot liabilities	(39,015)	(56)	(138)	(39,209)
Net position	633	(1)	(10)	622

	31 December 2018			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	35,931	54	128	36,113
Spot liabilities	(35,310)	(56)	(138)	(35,504)
Net position	621	(2)	(10)	609

The Group has no structural position at the Reporting Periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

3 INTERNATIONAL CLAIMS

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

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

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

	30 June 2019		Total
	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	32	–	32
Europe	69	–	69
Total	101	–	101

	31 December 2018		Total
	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	27	–	27
Europe	67	–	67
Total	94	–	94

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(EXPRESSED IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	30 June 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	80,688	271,999
– between 6 months and 1 year (inclusive)	391,609	561,715
– between 1 year and 3 years (inclusive)	1,253,160	827,400
– over 3 years	129,469	150,873
Total	1,854,926	1,811,987
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.07%	0.27%
– between 6 months and 1 year (inclusive)	0.35%	0.55%
– between 1 year and 3 years (inclusive)	1.13%	0.81%
– over 3 years	0.11%	0.15%
Total	1.66%	1.78%

LIST OF BRANCHES

LIST OF BRANCHES

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

No.	Institution name	Institution address	Note
1	Head office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province	1 small enterprises financial services center (小企業金融服務中心) ⁽¹⁾ and 86 sub-branches under its jurisdiction
2	Lvliang Branch	Intersection of Changzhi Road and Longfeng Street, Lishi District, Lvliang, Shanxi Province	6 sub-branches under its jurisdiction
3	Yuncheng Branch	No. 989 Pu'an Street, Yanhu District, Yuncheng, Shanxi Province	5 sub-branches under its jurisdiction
4	Linfen Branch	Block B, Guangqi Fortune Center, Hefen Road, Linfen, Shanxi Province	8 sub-branches under its jurisdiction
5	Shuozhou Branch	North side of Zhenhua East Street, Shuozhou Economic Development Zone, Shanxi Province	9 sub-branches under its jurisdiction
6	Datong Branch	No. 46, Weidu Avenue, Datong, Shanxi Province	9 sub-branches under its jurisdiction
7	Changzhi Branch	No. 288 Chengdong Road, Changzhi, Shanxi Province	8 sub-branches under its jurisdiction
8	Xinzhou Branch	Yiren Commercial Complex, Jianshe South Road, Xinfu District, Xinzhou, Shanxi Province	10 sub-branches under its jurisdiction
9	Jincheng Branch	1/F – 2/F, Zizhulin Building, Fengtai West Street, Jincheng, Shanxi Province	3 sub-branches under its jurisdiction
10	Jinzhong Branch	No. 678, Anning Street, Yuci District, Jinzhong, Shanxi Province	5 sub-branches under its jurisdiction
11	Yangquan Branch	1/F – 5/F, Commercial Building, Wanlong International Phase I, Nanda East Street, Yangquan, Shanxi Province	–

Note:

1. A small enterprises financial services center (小企業金融服務中心) is a licensed institution approved by regulatory authorities to conduct business.



晋商银行
Jinshang Bank