



盛京銀行
SHENGJING BANK

Shengjing Bank Co., Ltd.*

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

Stock Code: 02066



2020

Interim Report



CONTENTS

1	Company Information	2
2	Financial Highlights	4
3	Chairman's Statement	8
4	Management Discussion and Analysis	10
	4.1 Analysis of Overall Operations	10
	4.2 Analysis of Financial Statements	12
	4.3 Business Overview	50
	4.4 Risk Management	62
	4.5 Future Prospects and Development Strategy	73
5	Change in Share Capital and Shareholders	74
6	Directors, Supervisors, Senior Management and Employees	85
7	Significant Events	90
8	Review Report of the Independent Auditors	93
9	Interim Financial Statement	95
10	Notes to the Interim Financial Statement	106
11	Definition	235

* *Shengjing Bank Co., Ltd. is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking and/or deposit-taking business in Hong Kong.*

COMPANY INFORMATION

Legal Name in Chinese	盛京銀行股份有限公司
Abbreviation in Chinese	盛京銀行
Legal Name in English	Shengjing Bank Co., Ltd.
Abbreviation in English	SHENGJING BANK
Legal Representative	QIU Huofa
Authorised Representatives	QIU Huofa and ZHOU Zhi
Secretary to the Board of Directors	ZHOU Zhi
Joint Company Secretaries	ZHOU Zhi and KWONG Yin Ping, Yvonne
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Principal Place of Business in Hong Kong	Unit 4105, 41/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Website of the Hong Kong Stock Exchange on which the H Share Interim Report is Published	www.hkexnews.hk
Place of Maintenance of the Interim Report	Office of the Board of Directors and Supervisory Board of Shengjing Bank
Stock Name	Shengjing Bank
Stock Code	02066

COMPANY INFORMATION (CONTINUED)

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

FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	January to June 2020	January to June 2019	Rate of Change (%)
Operating Results			
Interest income	20,838,858	22,290,578	(6.5)
Interest expenses	(13,355,516)	(15,418,393)	(13.4)
Net interest income	7,483,342	6,872,185	8.9
Net non-interest income	2,355,390	3,265,397	(27.9)
Operating income	9,838,732	10,137,582	(2.9)
Operating expenses	(2,212,683)	(2,011,047)	10.0
Impairment losses on assets	(4,372,912)	(4,596,742)	(4.9)
Profit before taxation	3,253,137	3,529,793	(7.8)
Income tax expenses	(407,400)	(385,602)	5.7
Net profit	2,845,737	3,144,191	(9.5)
Net profit attributable to equity shareholders of the Bank	<u>2,829,393</u>	<u>3,156,059</u>	<u>(10.4)</u>
Calculated on a per share basis (RMB)			Change
Basic and diluted earnings per share	<u>0.32</u>	<u>0.54</u>	<u>(0.22)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	30 June 2020	31 December 2019	Rate of Change (%)
Major indicators of assets/liabilities			
Total assets	1,058,389,284	1,021,480,796	3.6
Of which: total loans and advances to customers ⁽¹⁾	512,774,537	457,202,375	12.2
Total liabilities	977,369,802	942,358,811	3.7
Of which: total deposits from customers ⁽¹⁾	641,706,772	641,428,191	0.0
Share capital	8,796,680	8,796,680	–
Equity attributable to equity shareholders of the Bank	80,436,685	78,555,532	2.4
Total equity	<u>81,019,482</u>	<u>79,121,985</u>	<u>2.4</u>
	January to June 2020	January to June 2019	Change
Profitability Indicators (%)			
Return on average total assets ⁽²⁾	0.55	0.62	(0.07)
Return on average equity ⁽³⁾	7.11	10.86	(3.75)
Net interest spread ⁽⁴⁾	1.69	1.63	0.06
Net interest margin ⁽⁵⁾	1.73	1.53	0.20
Cost-to-income ratio ⁽⁶⁾	<u>21.41</u>	<u>19.06</u>	<u>2.35</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	30 June 2020	31 December 2019	Change
Asset quality indicators (%)			
Non-performing loan ratio ⁽⁷⁾	2.49	1.75	0.74
Provision coverage ratio ⁽⁸⁾	130.07	160.90	(30.83)
Allowance to total loans ⁽⁹⁾	3.24	2.82	0.42

	30 June 2020	31 December 2019	Change
Capital adequacy ratio indicators (%)			
Core Tier-one capital adequacy ratio ⁽¹⁰⁾	11.52	11.48	0.04
Tier-one capital adequacy ratio ⁽¹⁰⁾	11.52	11.48	0.04
Capital adequacy ratio ⁽¹⁰⁾	14.37	14.54	(0.17)
Total equity to total assets ratio	7.65	7.75	(0.10)
Other indicators (%)			
Loan-to-deposit ratio ⁽¹¹⁾	79.91	71.28	8.63

FINANCIAL HIGHLIGHTS (CONTINUED)

Notes:

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

CHAIRMAN'S STATEMENT

In the first half of 2020, in the face of complex and severe business environment, Shengjing Bank strengthen the business philosophy of “taking deposits, law compliance, talents and science and technology as the key foundations of the Bank”, and clearly defined the market positioning of “serving the local economy, small and micro businesses, as well as urban and rural residents”. Further we steadily promoted the development of various businesses with the spirit of striding forward in spite of difficulties and seizing every minutes, and created a good situation in the operation of the entire Bank where businesses developed soundly with steady progress, and thus laid a solid foundation for the realization of our annual business objectives. As of 30 June 2020, the total asset of Shengjing Bank amounted to RMB1,058,389 million, the total amount of loans and advances to customers amounted to RMB512,775 million, the total amount of deposits amounted to RMB641,707 million, the operating income amounted to RMB9,839 million and the net profit amounted to RMB2,846 million.

Gradually deepen the reform of the system and mechanism, and continuously enhance the inner driving force for development. The Bank made efforts to strengthen the top-level design of corporate governance, improve the governance structure, and clearly define the responsibility boundaries of the “two sessions and one level”. We also optimized the organizational structure of the head office, specified in detail the management and operation functions of the business departments of the head office, and clarified the relationship among the front, middle and back office. Guided by the development strategy of the whole Bank and adhering to the principle of combining promotion of efficiency with giving consideration to fairness, the Bank further improved the performance appraisal system and established a scientific and efficient assessment mechanism with clear rules for rewards and penalties, fully stimulated the enthusiasm, initiative and creativity of all staff members, and thus unified all employees of the Bank into the community of interest to promote the development of Shengjing Bank.

Committed to the basic policy of “Taking Deposits as the Key Foundation of the Bank” and enhance the basis for deposits development. Adhering to the customer position of “Two Advantages and Two Main Issues”, effectively carrying out a market-oriented business model driven by marketing and products, whereby the public-private interaction and online-and-offline interactions were established. The Bank increased the effort for the allocation of marketing personnel in the main area of the front line, effectively improved the executive power of marketing staff, enabled various branches to give full play of their roles as the main force, and formed a marketing “Iron Army” that can fight hard battles, so as to promote the steady growth of various businesses.

CHAIRMAN'S STATEMENT (CONTINUED)

Strengthen the construction of risk management system and strictly adhere to the basic principle for sound operation. The Bank comprehensively promoted the reform of risk management lines, reshaped the risk management system, and made the risk management more refined and specialized. The Bank implemented the system of appointing risk directors, implemented vertical management of risk lines, and effectively resolved the existing business risks as well as prevented and controlled new business risks. The Bank continued to strengthen the construction of compliance culture, established a compliance culture of “Glorious for Compliance and Shameful for Violation Compliance and Shameful Violation”, punished illegal and breaching activities, and as a result, the risk management was conducted in a more initiative, systematic and comprehensive way..

Carry out the “Three Major Constructions” in an in-depth way, and enhance the executive power of the whole Bank. On the basis of improved organizational structure and clearly defined responsibility in the whole Bank, the Bank put effort on solving the main issues and key problems, carried out the “Three Major Constructions” (namely the construction of system, team and culture) in an in-depth way, started to analyze and adjust the system, and comprehensively improved the effectiveness of the system. The Bank strengthened the team construction of three-levels, namely at the level of the head office, the branches and sub-branches through introduction from outside and internal cohesion, so as to build up a strong executive staff team. The Bank also vigorously promoted “positive energy” and actively cultivate a corporate culture embodied with hard working, ambition, dedication, health and sunshine.

As a poem says, “Believing in a life of two hundred years, one would fight against the water of three thousand miles”. In the second half of 2020, in the face of difficulties and obstacles, Shengjing Bank will continue to focus on the strategic goal of “Being A Good Bank”, continue to accumulate momentum and continue to identify changes and adapt to them, so as to comprehensively complete various tasks and achieve sound and rapid development!

Chairman of Shengjing Bank
QIU Huofa

MANAGEMENT DISCUSSION AND ANALYSIS

4.1 ANALYSIS OF OVERALL OPERATIONS

In the first half of 2020, facing severe external economic environment, Shengjing Bank, focusing on the goal of “Being A Good Bank”, made effort to change concept, increase deposits, control risks, strengthen implementation and handle the operation development and the COVID-19 pandemic prevention and control work in a unified manner, resulting in stable progress in business development.

(I) Business scale continued to expand

In the first half of the year, focusing on laying a solid foundation for development and optimizing the business structure, the Bank steadily increased the scale of assets, maintained stable deposits and total loans. As of 30 June 2020, total assets of the Bank amounted to RMB1,058,389 million, representing an increase of RMB36,908 million or 3.6% as compared with that at the end of last year, reaching a historical high; total loans and advances to customers amounted to RMB512,775 million, representing an increase of 55,572 million or 12.2% as compared with that at the end of last year; total liabilities amounted to RMB977,370 million, representing an increase of RMB 35,011 million or 3.7% as compared with that at the end of the last year; balances of various deposits amounted to RMB641,707 million, representing an increase of RMB279 million as compared with that at the end of the last year.

(II) The overall profit level is stable

In the beginning of this year, the downtown pressure on the economy has increased further affected by the unexpected COVID-19 pandemic outbreak. The Bank actively responded to the call of national policies, strengthened the support of the real economy, optimized the structure of assets and liabilities, strengthened pricing management, and reasonably reduced the cost of debt capital under the market environment of falling return rates of assets. The net interest margin and net interest rate of return increased by 0.06 percentage point and 0.20 percentage point respectively on a year-on-year basis, driving the growth of net interest income; meanwhile, affected by the fluctuation of bond market yield, the non interest income such as trading spread income of bills and bonds decreased as compared to the same period last year. In the first half of 2020, the operating income of the Bank was RMB9,839 million, representing a year-on-year decrease of RMB299 million, and the net profit was RMB 2,846 million, representing a year-on-year decrease of RMB 298 million.

(III) Continuously consolidate asset quality

The Bank continued to promote the reconstruction of the comprehensive risk management system, strictly controlled the incremental risk, actively resolved the stock risk, and improved the risk compensation ability. In the first half of 2020, the Bank implemented a more stringent and prudent risk classification standard according to the regulatory policy, and included all loans overdue for more than 90 days into the non-performing loans. As of June 30, 2020, the non-performing loan ratio of the bank was 2.49%, representing an increase of 0.74 percentage point as compared to the beginning of the year; loans overdue for more than 90 days accounted for 2.45% of all loans, representing a decrease of 1.44 percentage points as compared to the beginning of the year, effectively reducing the potential non-performing risk; the loan provision ratio was 3.24%, increased by 0.42 percentage point as compared to the beginning of the year, and the quality of credit assets remained stable.

(IV) Capital level continues to meet the standard

The Bank actively broadened capital replenishment channels, While exploring new capital replenishment tools, we strengthened replenishment by internally sourced capital and reasonably controlled risk-weighted asset growth rate, so as to ensure our capital adequacy ratio continuously met regulatory standards, and the implementation of the Bank's development strategic plan was effectively supported. As of 30 June 2020, the core tier-one capital adequacy ratio and tier-one capital adequacy ratio were 11.52% respectively, and the capital adequacy ratio was 14.37%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2 ANALYSIS OF FINANCIAL STATEMENTS

4.2.1 Analysis of the Income Statement

In the first half of 2020, the Bank achieved a profit before taxation of RMB3,253 million, representing a year-on-year decrease of RMB277 million or 7.8%, and achieved a net profit of RMB2,846 million, representing a year-on-year decrease of RMB298 million or 9.5%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Interest income	20,838,858	22,290,578	(1,451,720)	(6.5)
Interest expense	(13,355,516)	(15,418,393)	2,062,877	(13.4)
Net interest income	7,483,342	6,872,185	611,157	8.9
Net fee and commission income	580,900	611,246	(30,346)	(5.0)
Net trading gains	2,935,347	1,302,617	1,632,730	125.3
Net gains arising from investments	2,335,148	2,933,500	(598,352)	(20.4)
Net foreign exchange losses	(3,638,101)	(1,589,387)	(2,048,714)	128.9
Other operating income	142,096	7,421	134,675	1,814.8
Operating income	9,838,732	10,137,582	(298,850)	(2.9)
Operating expenses	(2,212,683)	(2,011,047)	(201,636)	10.0
Impairment losses on assets	(4,372,912)	(4,596,742)	223,830	(4.9)
Profit before taxation	3,253,137	3,529,793	(276,656)	(7.8)
Income tax expense	(407,400)	(385,602)	(21,798)	5.7
Net profit	2,845,737	3,144,191	(298,454)	(9.5)

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.1 Operating income

In the first half of 2020, the Bank achieved an operating income of RMB9,839 million, representing a year-on-year decrease of RMB299 million or 2.9%, of which, net interest income accounted for 76.1% of the operating income, representing a year-on-year increase of 8.3 percentage points.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Net interest income	7,483,342	6,872,185	611,157	8.9
Net non-interest income	2,355,390	3,265,397	(910,007)	(27.9)
Operating income	9,838,732	10,137,582	(298,850)	(2.9)

4.2.1.2 Net interest income

In the first half of 2020, the Bank achieved a net interest income of RMB7,483 million, representing a year-on-year increase of RMB611 million, or 8.9%, mainly due to the year-on-year decrease in interest income by RMB1,452 million and year-on-year decrease in interest expense of the Bank by RMB2,063 million. The following table sets forth the interest income, interest expense and net interest income of the Bank during the period indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Interest income	20,838,858	22,290,578	(1,451,720)	(6.5)
Interest expense	(13,355,516)	(15,418,393)	2,062,877	(13.4)
Net interest income	7,483,342	6,872,185	611,157	8.9

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.3 Net interest spread and net interest margin

In the first half of 2020, under the background of China's increasing financial support to the real economy, promoting the market-oriented reform of LPR interest rate and guiding the downward trend of loan interest rate, the Bank actively implemented economic and financial policies, continuously optimized the structure of assets and liabilities, strengthened pricing management, effectively controlled the cost of liabilities, significantly increased the average balance and proportion of loans and advances to customers during the reporting period, and paid interest on liabilities. The net interest spread and net interest margin increased slightly on a year-on-year basis. In the first half of 2020, the Bank's net interest spread was 1.69%, representing a year-on-year increase of 0.06 percentage point; the net interest margin was 1.73%, representing a year-on-year increase of 0.20 percentage point.

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities for the six months ended 30 June 2020 and 2019 are the average balances derived from the Bank's management accounts which have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest income/expense	Average yield/interest payment (%)	Average balance	Interest income/expense	Average yield/interest payment (%)
Interest-earning assets						
Loans and advances to customers	470,267,230	14,017,289	5.99	416,931,765	12,843,661	6.16
Financial investments	311,775,429	6,185,745	3.99	365,561,944	8,299,921	4.54
Deposits with Central Bank	68,777,185	510,047	1.49	76,076,002	553,480	1.46
Deposits and Placements with banks and other financial institutions	5,881,152	52,074	1.78	29,210,075	506,477	3.47
Financial assets held under resale agreements	11,217,262	73,703	1.32	7,997,171	87,039	2.18
Total interest-earning assets	867,918,258	20,838,858	4.83	895,776,957	22,290,578	4.98

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest income/expense	Average yield/interest payment (%)	Average balance	Interest income/expense	Average yield/interest payment (%)
Interest-bearing liabilities						
Borrowings from Central Bank	6,983,285	110,552	3.18	16,053,646	257,465	3.21
Deposits from customers	571,799,489	8,513,790	2.99	558,961,013	8,554,175	3.06
Deposits and Placements from banks and other financial institutions	109,672,852	2,108,076	3.87	146,969,802	2,797,185	3.81
Financial assets sold under repurchase agreements	87,637,093	1,075,447	2.47	34,648,616	433,805	2.50
Debt securities issued	80,150,480	1,547,651	3.88	164,430,998	3,375,763	4.11
Total interest-bearing liabilities	856,243,199	13,355,516	3.14	921,064,075	15,418,393	3.35
Net interest income		7,483,342			6,872,185	
Net interest spread ⁽¹⁾			1.69			1.63
Net interest margin ⁽²⁾			1.73			1.53

Notes: (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2020 compared with 2019		
	Increase/ (decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	1,643,009	(469,381)	1,173,628
Financial investments	(1,221,199)	(892,977)	(2,114,176)
Deposits with Central Bank	(53,101)	9,668	(43,433)
Deposits and Placements with banks and other financial institutions	(404,503)	(49,900)	(454,403)
Financial assets held under resale agreements	35,047	(48,383)	(13,336)
Changes in interest income	(747)	(1,450,973)	(1,451,720)
Interest-bearing liabilities			
Borrowings from Central Bank	(145,469)	(1,444)	(146,913)
Deposits from customers	196,476	(236,861)	(40,385)
Deposits and Placements from banks and other financial institutions	(709,850)	20,741	(689,109)
Financial assets sold under repurchase agreements	663,422	(21,780)	641,642
Debt securities issued	(1,730,276)	(97,836)	(1,828,112)
Changes in interest income expense	(1,725,697)	(337,180)	(2,062,877)
Changes in net interest income	1,724,950	(1,113,793)	611,157

Notes: (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.

(2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.

(3) Represents interest income or expense for the period minus interest income or expense for the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.4 Interest income

In the first half of 2020, the Bank achieved an interest income of RMB20,839 million, representing a year-on-year decrease of RMB1,452 million or 6.5%, mainly due to the Bank's optimization of asset structure, in accordance with the guidance of regulatory policies, significant decrease of the average amount of inter-bank financial investment, and the decline of the rate of yield from financial investment due to the downward impact of overall market interest rates.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020		2019	
	Amount	% of total	Amount	% of total
Loans and advances to customers				
Corporate loans (including discounted bills)	12,048,231	57.8	11,951,212	53.6
Personal loans	1,969,058	9.4	892,449	4.0
Sub-total	14,017,289	67.2	12,843,661	57.6
Financial investments	6,185,745	29.8	8,299,921	37.2
Deposits with Central Bank	510,047	2.4	553,480	2.5
Deposits and Placements with banks and other financial institutions	52,074	0.2	506,477	2.3
Financial assets held under resale agreements	73,703	0.4	87,039	0.4
Total	20,838,858	100.0	22,290,578	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers was the essential component of the Bank's interest income. In the first half of 2020, interest income of the Bank from loans and advances to customers amounted to RMB14,017 million representing a year-on-year increase of RMB1,174 million or 9.1%, and accounted for 67.2% of the total interest income, representing an increase of 9.6 percentage points, which was mainly due to the Bank continued to improve its business management system, promoted the transformation of operating structure, strengthened customer base, enriched product categories, and continued to increase the credit allocation. As a result, the scale and pricing of personal loans have increased significantly, which has driven the steady growth of interest income from loans and advances to customers.

The following table sets forth the average balances of the loans and advances to customers and the average earnings rate of the Bank's related interest income and loans and advances to customers during the period indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June					
	2020			2019		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans (including discounted bills)	404,422,330	12,048,231	5.99	383,619,826	11,951,212	6.23
Personal loans	65,844,900	1,969,058	6.01	33,311,939	892,449	5.36
Total	470,267,230	14,017,289	5.99	416,931,765	12,843,661	6.16

2. Interest Income from Financial Investments

In the first half of 2020, interest income of the Bank from financial investments amounted to RMB6,186 million, representing a year-on-year decrease of RMB2,114 million or 25.5%, which was mainly due to the Bank's optimization of asset structure under the guidance of regulatory policies, and significant decline of financial investment scale year-on-year. At the same time, with the relatively adequate liquidity in the first half of 2020, the market interest rate level decreased significantly, and the rate of return of financial investment decreased.

3. Interest Income from Deposits with Central Bank

In the first half of 2020, interest income of the Bank from deposits with central bank amounted to RMB510 million, representing a year-on-year decrease of RMB43 million or 7.8%, which was mainly due to the slight decline in the average balance of the deposits with central bank.

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

In the first half of 2020, interest income of the Bank from deposits and placements with banks and other financial institutions amounted to RMB52 million, representing a year-on-year decrease of RMB454 million or 89.7%, which was mainly due to the significant decrease in the average balance of deposits and placements with bank and other financial institutions as a result of the Bank's improvement in asset allocation.

5. Interest Income from Financial Assets Held under Resale Agreements

In the first half of 2020, interest income of the Bank from financial assets held under resale agreements amounted to RMB74 million, representing a year-on-year decrease of RMB13 million or 15.3%, which was mainly due to the influence of abundant market funds, the downward trend of money market yield and the decrease of average yield of financial assets held under resale agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.5 Interest expense

In the first half of 2020, interest expense of the Bank amounted to RMB13,356 million, representing a year-on-year decrease of RMB2,063 million or 13.4%, which was mainly due to the Bank's commitment to the basic policy of "Taking Deposits as the Key Foundation of the Bank", optimization of interest-bearing liabilities structure, the decrease of the overall scale of interest-bearing liabilities, reasonable control of the capital cost and decrease in the average cost of interest-bearing liabilities. The following table sets forth the principal components of the interest expense of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020		2019	
	Amount	% of total	Amount	% of total
Borrowings from Central Bank	110,552	0.8	257,465	1.7
Deposits from customers	8,513,790	63.7	8,554,175	55.5
Deposits and Placements from banks and other financial institutions	2,108,076	15.8	2,797,185	18.1
Financial assets sold under repurchase agreements	1,075,447	8.1	433,805	2.8
Debt securities issued	1,547,651	11.6	3,375,763	21.9
Total	13,355,516	100.0	15,418,393	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Expense on Deposits from customers

In the first half of 2020, interest expense on deposits from customers amounted to RMB8,514 million, representing a year-on-year decrease of RMB40 million, or 0.5%, which was mainly due to the Bank's strengthening customer base maintenance and development, intensifying cost control, steady growth of average balance of deposits received, and year-on-year decrease of average deposit cost.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Demand	133,635,814	644,587	0.97	165,827,994	786,719	0.95
Time	197,496,005	3,408,493	3.47	218,190,409	4,322,071	3.96
Sub-total	331,131,819	4,053,080	2.46	384,018,403	5,108,790	2.66
Personal deposits						
Demand	24,120,844	47,698	0.40	17,055,093	34,281	0.40
Time	216,546,826	4,413,012	4.10	157,887,517	3,411,104	4.32
Sub-total	240,667,670	4,460,710	3.73	174,942,610	3,445,385	3.94
Total deposits from customers	571,799,489	8,513,790	2.99	558,961,013	8,554,175	3.06

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In the first half of 2020, interest expense of the Bank on deposits and placements from banks and other financial institutions amounted to RMB2,108 million, representing a year-on-year decrease of RMB689 million or 24.6%, which was mainly due to the Bank's optimization the structure of liabilities and reducing the scale of interbank financing, which resulted in the decrease in the average balance of the deposits and placements with banks and other financial institutions.

3. Interest Expense on Financial Assets Sold under Repurchase Agreements

In the first half of 2020, interest expense of the Bank on financial assets sold under repurchase agreements amounted to RMB1,075 million, representing a year-on-year increase of RMB642 million or 147.9%, which was mainly due to the significant Bank's year-on-year increase in the average balance of the Bank's financial assets sold under repurchased agreement.

4. Interest Expense on Debt Securities Issued

In the first half of 2020, interest expense of the Bank on debt securities issued amounted to RMB1,548 million, representing a year-on-year decrease of RMB1,828 million or 54.2%, which was mainly due to the Bank's significant decrease in the average balance of the bonds issued.

4.2.1.6 Net Non-interest Income

In the first half of 2020, the Bank achieved the net non-interest income of RMB2,355 million, representing a year-on-year decrease of RMB910 million or 27.9%, mainly due to that with the impact of market environment, the trading profit of bond investment of the Bank decreased year on year. At the same time, due to the impact of the COVID-19 pandemic, the fluctuation of global financial market increased, and the fair value changes of derivative financial instruments held by the Bank increased at the end of the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Net Fee and Commission Income

In the first half of 2020, the Bank achieved a net fee and commission income of RMB581 million, representing a year-on-year decrease of RMB30 million or 5.0%, mainly due to the increase in fees and commission expenses, and the significant decrease in fee income of the trade settlement business resulting from the COVID-19 pandemic.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Fee and commission income				
Agency and custody services fees	699,374	455,821	243,553	53.4
Settlement and clearing services fees	48,930	206,175	(157,245)	(76.3)
Bank card services fees	138,454	32,488	105,966	326.2
Fee and commission expense	(305,858)	(83,238)	(222,620)	267.4
Net fee and commission income	580,900	611,246	(30,346)	(5.0)

2. Net Trading Gains and Net Foreign Exchange Losses

In the first half of 2020, the Bank's net trading gains and net foreign exchange losses amounted to RMB703 million, representing a year-on-year increase of RMB416 million, mainly due to the increase in losses from the change in fair value arising from derivative financial instruments held by the Bank incurred at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Net Gains Arising from Investments

In the first half of 2020, the net gains arising from financial investments of the Bank amounted to RMB2,335 million, representing a year-on-year decrease of RMB598 million or 20.4%, mainly due to the decrease in gains from the Bank's bond transaction spread and bond valuation, which was affected by the fluctuation of the bond market yield in the first half of the year.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Net gains on financial assets at fair value through profit or loss	1,809,494	1,958,779	(149,285)	(7.6)
Net gains on disposal of financial assets at fair value through other comprehensive income	451,829	810,368	(358,539)	(44.2)
Net gains on disposal of financial assets measured at amortised cost	73,825	163,153	(89,328)	(54.8)
Dividends from designated as financial assets at fair value through other comprehensive income	-	1,200	(1,200)	(100.0)
Total	2,335,148	2,933,500	(598,352)	(20.4)

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.7 Operating expenses

In the first half of 2020, the operating expenses of the Bank amounted to RMB2,213 million, representing a year-on-year increase of RMB202 million or 10.0%, and the cost-to-income ratio was 21.41%, representing a year-on-year increase of 2.35 percentage points. During the reporting period, the Bank brought in more specialized talents and strengthening the market-oriented incentive and restraint mechanism of pay according to performance and distribution according to workload, resulting in an increase in staff costs compared with the same period of the previous year. Based on the principle of combination retaining and reducing, the Bank optimized the expenses structure, resulting in a year-on-year decrease of office expenses and other general and administrative expenses.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Staff costs	1,263,516	1,093,697	169,819	15.5
Tax and surcharges	106,186	78,664	27,522	35.0
Depreciation and amortization	308,073	286,776	21,297	7.4
Rental and property management expenses	40,907	32,442	8,465	26.1
Office expenses	148,022	160,127	(12,105)	(7.6)
Other general and administrative expenses	345,979	359,341	(13,362)	(3.7)
Total operating expenses	2,212,683	2,011,047	201,636	10.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Staff Costs

In the first half of 2020, staff costs of the Bank amounted to RMB1,264 million, representing a year-on-year increase of RMB170 million or 15.5%, mainly due to the introduction and election of a number of experienced and professional personnel optimizing the Company, retail and financial markets, and improving the market-oriented incentive and restraint mechanism resulting year-on-year increase in the salary, bonuses and allowances of staff.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Salaries, bonuses and allowances	1,036,518	747,049	289,469	38.7
Pension and annuity	64,945	124,121	(59,176)	(47.7)
Other social insurance	48,078	118,345	(70,267)	(59.4)
Housing allowances	57,434	47,723	9,711	20.3
Supplementary retirement benefits	3,172	2,527	645	25.5
Others	53,369	53,932	(563)	(1.0)
Staff costs	1,263,516	1,093,697	169,819	15.5

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Office Expenses, Rental and Property Management Expenses

In the first half of 2020, office expenses, rental and property management expenses of the Bank amounted to RMB189 million, representing a year-on-year decrease of RMB4 million or 1.9%. Office expenses, rental and property management expenses mainly include office supplies, property rents, and maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees.

3. Depreciation and Amortization

In the first half of 2020, depreciation and amortization expenses of the Bank amounted to RMB308 million, representing a year-on-year increase of RMB21 million or 7.4%. The increase in depreciation and amortization expenses was primarily due to such increase caused by the setting up of financial technology and standardized outlets.

4. Other General and Administrative Expenses

In the first half of 2020, other general and administrative expenses of the Bank amounted to RMB346 million, representing a year-on-year decrease of RMB13 million or 3.7%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.8 Impairment losses on assets

In the first half of 2020, impairment losses on assets of the Bank amounted to RMB4,373 million, representing a year-on-year decrease of RMB224 million or 4.9%, mainly due to the decrease in the provision of asset impairment losses in accordance with the credit asset risk, as well as the year-on-year increase of the provision of asset impairment losses in this year, which was caused by the reversal of asset impairment losses in financial investment last year. The following table sets forth the principal components of the impairment losses on assets of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2020	2019	Change in amount	Rate of change (%)
Deposits and placements with bank and other financial institutions	(334)	137,874	(138,208)	(100.2)
Financial assets held under resale agreements	(2,427)	3,054	(5,481)	(179.5)
Loans and advances to customers	4,116,855	4,806,729	(689,874)	(14.4)
Financial investments	165,697	(426,390)	592,087	(138.9)
Credit commitment	92,390	79,676	12,714	16.0
Others	731	(4,201)	4,932	(117.4)
Total	4,372,912	4,596,742	(223,830)	(4.9)

4.2.1.9 Income tax expense

In the first half of 2020, income tax expense of the Bank amounted to RMB407 million, representing a year-on-year increase of RMB22 million or 5.7%, which was mainly due to the year-on-year decrease in tax-free income.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2 Analysis of the Statement of Financial Position

4.2.2.1 Assets

As at 30 June 2020, total assets of the Bank were RMB1,058,389 million, representing an increase of RMB36,908 million or 3.6% as compared with that at the end of the previous year, mainly due to the increase in loans and advances to customers and financial investment. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) cash and deposits with Central Bank and (iv) Deposits with banks and other financial institutions, which accounted for 47.3%, 41.4%, 7.2% and 1.0%, respectively, of total assets of the Bank as of 30 June 2020. The following table sets forth the principal components of assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	of total %	Amount	of total %
Assets				
Total loans and advances to customers	512,774,537	48.4	457,202,375	44.8
Interest receivable	5,586,336	0.5	2,052,316	0.2
Provision for impairment losses	(16,594,446)	(1.6)	(12,879,170)	(1.3)
Net loans and advances to customers	501,766,427	47.3	446,375,521	43.7
Financial investments ⁽¹⁾	437,754,403	41.4	417,492,192	40.9
Deposits with banks and other financial institutions	11,272,658	1.0	21,104,213	2.1
Cash and deposits with Central Bank	76,386,391	7.2	90,533,151	8.9
Financial assets held under resale agreements	3,982,562	0.4	18,713,438	1.8
Placements with banks and other financial institutions	5,899,576	0.6	8,198,954	0.8
Derivative financial assets	7,012,163	0.7	3,379,675	0.3
Other assets ⁽²⁾	14,315,104	1.4	15,683,652	1.5
Total assets	1,058,389,284	100.0	1,021,480,796	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

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

1. Loans and Advances to Customers

The total loans and advances to customers made by the Bank as at 30 June 2020 amounted to RMB512,775 million with an increase of RMB55,572 million or 12.2% as compared with that at the end of last year, and accounted for 48.4% of the total assets, representing an increase of 3.6 percentage points as compared to the end of last year. The loans and advances to customers made by the Bank consisted mainly of corporate loans (including discounted bills) and personal loans.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	of total %	Amount	of total %
Corporate loans				
– Corporate loans	390,933,257	76.3	374,201,172	81.8
– Discounted bills	58,344,294	11.4	25,488,939	5.6
Personal loans				
– Residential mortgage	41,021,158	8.0	36,041,189	7.9
– Personal consumption loans	16,444,516	3.2	17,297,007	3.8
– Credit cards	5,318,867	1.0	3,568,235	0.8
– Personal business loans	694,675	0.1	587,963	0.1
– Others	17,770	0.0	17,870	0.0
Total loans and advances to customers	512,774,537	100.0	457,202,375	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Corporate loans constituted the largest component of the Bank's loan portfolio. As at 30 June 2020, the corporate loans (including discounted bills) of the Bank amounted to RMB449,278 million, representing an increase of RMB49,587 million or 12.4% as compared to the end of last year and accounting for 87.7% of the total loans and advances to customers, mainly due to the fact that the Bank continuously improved the management system, strengthened customer base, promoted professional operation from top to bottom, focused on advantageous industries, mainstream customers, high-quality enterprise and mainstream products, to build the comprehensive corporate banking business with characteristics and values.

Personal loans offered by the Bank mainly include residential mortgage loan, personal consumption loans, credit cards and personal business loans. As at 30 June 2020, personal loans of the Bank amounted to RMB63,497 million with an increase of RMB5,985 million or 10.4% as compared with the end of last year, and accounted for 12.3% of total loans and advances to customers, representing an decrease of 0.3 percentage point. The Bank has established a profit-oriented, customer-centric, high-quality and fast-growing retail banking business model, and at the same time, it has established a diversified retail product system, an intelligent risk control system, a market-oriented organization and management system, and an agile technology support system. It provides favorable conditions for the grand retail growth.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) Loans by type of guarantee

The structure of collaterals of the Bank's loans and advances to customers was stable and the Bank's capability of mitigating risks was relatively solid. As at 30 June 2020, the balance of loans guaranteed or secured by mortgages and pledges was RMB475,125 million, representing an increase of RMB38,850 million or 8.9% as compared with that at the end of the previous year, and accounted for 92.7% of the total loans and advances to customers; and the balance of unsecured loans was RMB37,650 million, representing an increase of RMB16,722 million or 79.9% as compared with that at the end of the previous year, and accounted for 7.3% of the total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such a loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	of total (%)	Amount	of total (%)
Loans secured by mortgages	197,934,442	38.6	182,487,244	39.8
Loans secured by pledges	102,343,427	20.0	73,889,168	16.2
Guaranteed loans	174,846,732	34.1	179,898,160	39.4
Unsecured loans	37,649,936	7.3	20,927,803	4.6
Total loans and advances to customers	512,774,537	100.0	457,202,375	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 June 2020, the balance of provision for impairment on loans and advances to customers was RMB16,594 million, representing an increase of RMB3,715 million or 28.8% as compared with that at the end of the previous year, mainly due to mainly due to the fact that in accordance with the principle of prudence and prudence, the Bank made reasonable provision for impairment of loans and advances based on loan growth and expected credit risk.

The following table sets forth the provision for impairment losses on loans and advances issued by the Bank on the dates indicated.

	For the six months ended 30 June 2020				2019			
	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without impairment loss	A lifetime expected credit loss – loans with impairment loss	Total	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without impairment loss	A lifetime expected credit loss – loans with impairment loss	Total
Balance as at the beginning of the period	5,480,833	1,429,810	5,968,527	12,879,170	3,640,867	1,200,134	5,517,585	10,358,586
Transferred to:								
-to expected credit loss over the next 12 months	354,975	(109,589)	(245,386)	-	7,289	(449)	(6,840)	-
-to lifetime expected credit losses: not credit-impaired loss	(43,174)	567,426	(524,252)	-	(27,845)	27,986	(141)	-
-to lifetime expected credit losses: credit-impaired loss	(26,279)	(164,721)	191,000	-	(70,228)	(158,886)	229,114	-
Net charge for the period	2,661,119	985,043	328,671	3,974,833	1,930,750	361,025	8,090,170	10,381,945
Transfer out	-	-	(259,584)	(259,584)	-	-	(8,203,540)	(8,203,540)
Write-offs	-	-	-	-	-	-	(15,046)	(15,046)
Recoveries	-	-	27	27	-	-	357,225	357,225
Balance as at the end of the period	<u>8,427,474</u>	<u>2,707,969</u>	<u>5,459,003</u>	<u>16,594,446</u>	<u>5,480,833</u>	<u>1,429,810</u>	<u>5,968,527</u>	<u>12,879,170</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Financial Investments

As of 30 June 2020, the financial investments (including financial assets at fair value through other comprehensive income, Financial assets measured at amortised cost, financial assets at fair value through profit or loss) of the Bank amounted to RMB437,754 million, representing an increase of RMB20,262 million or 4.9% as compared with those of the end of the previous year, and accounted for 41.4% of the total assets, representing an increase of 0.5 percentage point as compared with that at the end of the previous year. The following table set forth the main components of the Bank's financial investments (exclusive of interest receivable) as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	160,602,564	37.0	156,691,876	37.8
– Bonds issued by policy banks	905,788	0.2	383,136	0.1
– Bonds issued by banks and other financial institutions	42,286,311	9.7	39,179,506	9.4
– Corporate entity bonds	1,030,961	0.2	1,030,961	0.2
– Investment management products managed by securities companies	115,704,504	26.7	116,098,273	28.1
– Investment management products under the trust scheme	675,000	0.2	–	–
Financial assets at fair value through other comprehensive income	44,862,649	10.4	32,964,176	8.0
– Government bonds	21,967,194	5.1	9,889,376	2.4
– Bonds issued by policy banks	15,617,476	3.6	15,548,565	3.8
– Bonds issued by banks and other financial institutions	1,452,621	0.3	1,415,436	0.3
– Corporate entity bonds	1,691,403	0.4	685,278	0.2
– Investment management products managed by securities companies	–	–	1,107,105	0.3
– Equity investments	4,133,955	1.0	4,318,416	1.0
Financial assets measured at amortised cost	228,076,165	52.6	224,222,731	54.2
– Government bonds	62,640,101	14.5	58,487,011	14.1
– Bonds issued by policy banks	75,087,826	17.3	72,871,086	17.6
– Bonds issued by banks and other financial institutions	200,000	0.0	–	–
– Corporate entity bonds	832,186	0.2	3,342,022	0.8
– Investment management products managed by securities companies	14,381,246	3.3	14,771,585	3.6
– Investment management products under the trust scheme	77,104,560	17.8	76,775,572	18.6
Less: provisions for financial assets at amortised cost	(2,169,754)	(0.5)	(2,024,545)	(0.5)
Total	433,541,378	100.0	413,878,783	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	For the six months ended 30 June 2020				2019			
	A lifetime expected credit loss – without credit impairment		A lifetime expected credit loss – with credit impairment		A lifetime expected credit loss – without credit impairment		A lifetime expected credit loss – with credit impairment	
	Expected credit loss in the next 12 months	loss	loss	Total	Expected credit loss in the next 12 months	loss	impairment loss	Total
Balance at the beginning of the period	2,336	-	-	2,336	5,453	-	-	5,453
Net charge/(release) for the period	20,488	-	-	20,488	(3,117)	-	-	(3,117)
Balance as at the end of the period	22,824	-	-	22,824	2,336	-	-	2,336

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

	For the six months ended 30 June 2020				2019			
	A lifetime expected credit loss – without credit impairment		A lifetime expected credit loss – with credit impairment		A lifetime expected credit loss – without credit impairment		A lifetime expected credit loss – with credit impairment	
	Expected credit loss in the next 12 months	loss	loss	Total	Expected credit loss in the next 12 months	loss	impairment loss	Total
Balance at the beginning of the period	828,138	165,454	1,030,953	2,024,545	1,322,900	785,637	289,376	2,397,913
Transferred to :								
- to lifetime expected credit losses								
- with credit impairment loss	(3,876)	-	3,876	-	(59,881)	(6,717)	66,598	-
Net charge/(release) for the period	37,042	1,926	106,241	145,209	(434,881)	(613,466)	674,979	(373,368)
Balance as at the end of the period	861,304	167,380	1,141,070	2,169,754	828,138	165,454	1,030,953	2,024,545

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2.2 Liabilities

As of 30 June 2020, total liabilities of the Bank amounted to RMB977,370 million, representing an increase of RMB35,011 million or 3.7% as compared with that at the end of the previous year. The components of the Bank's liabilities mainly consisted of (i) deposits from customers; (ii) Deposits and Placements from banks and other financial institutions; and (iii) Financial assets sold under repurchase agreements, accounting for 67.0%, 10.4% and 9.3%, respectively, with respect to the total liabilities.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	of total (%)	Amount	of total (%)
Borrowings from Central Bank	6,839,521	0.7	6,793,977	0.7
Deposits from customers	655,559,388	67.0	655,070,994	69.5
Deposits and Placements from banks and other financial institutions	101,930,677	10.4	96,837,332	10.3
Placements from banks and other financial institutions	9,089,217	0.9	6,589,301	0.7
Financial liabilities at fair value through profit or loss	25,078,940	2.6	26,520,878	2.8
Derivative financial liabilities	831,053	0.1	694,473	0.1
Financial assets sold under repurchase agreements	90,607,636	9.3	60,117,133	6.4
Debt securities issued	74,860,982	7.7	80,993,054	8.6
Other liabilities ⁽¹⁾	12,572,388	1.3	8,741,669	0.9
Total	977,369,802	100.0	942,358,811	100.0

Note :

- (1) Including payment and collection clearance accounts, accrued staff cost, deferred income, taxes payable, dormant accounts and other liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Deposits from Customers

As of 30 June 2020, the Bank's total deposits from customers amounted to RMB641,707 million, with an increase of RMB279 million or 0.04% as compared with the number recorded at the end of the previous year. Corporate deposits decreased by RMB59,491 million compared with the end of the previous year, mainly due to the Bank focusing on consolidating the deposit base, optimizing the customer structure, actively reducing high-cost and low-efficiency deposits, focusing on high-quality customers in high-quality industries and improving capital stability, laying a solid foundation for high-quality and sustainable growth of corporate deposits in the future. Personal deposits increased by RMB69,486 million compared with the end of last year, mainly due to the continuous development of basic customers in retail, continuously promoting innovation in products, channels and services. The achievements in the construction of efficient retail banking system has been reflected. The following table sets forth the Bank's deposits from customers (exclusive of interest payable) and product types as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	138,202,011	21.5	190,952,618	29.8
Time deposits	190,366,285	29.7	197,106,655	30.7
Sub-total	328,568,296	51.2	388,059,273	60.5
Personal deposits				
Demand deposits	23,542,780	3.7	37,732,968	5.9
Time deposits	258,043,770	40.2	174,367,690	27.2
Sub-total	281,586,550	43.9	212,100,658	33.1
Other deposits ⁽¹⁾	31,551,926	4.9	41,268,260	6.4
Total	641,706,772	100.0	641,428,191	100.0

Note:

(1) Mainly includes pledged deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Debt Securities Issued

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020 Amount	As at 31 December 2019 Amount
Tier two capital fixed rate debts maturing in December 2025	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	12,000,000	12,000,000
Financial fixed rate bonds maturing in October 2021	8,000,000	8,000,000
Financial fixed rate bonds maturing in November 2021	6,900,000	6,900,000
Certificates of interbank deposit	28,637,326	35,728,767
Total	73,537,326	80,628,767

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

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

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

As at 30 June 2020, the balance of certificates of interbank deposit issued by the Bank was RMB28,637 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2.3 Equity

As of 30 June 2020, the equity balance of the Bank amounted to RMB81,019 million, representing an increase of RMB1,897 million or 2.4% as compared with that at the end of the previous year. The following table sets forth the components of the equity of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Share capital	8,796,680	10.9	8,796,680	11.1
Capital reserve	26,931,360	33.2	26,931,360	34.0
Surplus reserve	7,166,927	8.8	7,166,927	9.1
General reserve	13,676,444	16.9	13,398,535	16.9
Fair value reserve	(670,145)	(0.8)	399,979	0.5
Provision reserve	130,097	0.2	8,215	0.0
Deficit on remeasurement of net defined benefit liability	(19,984)	(0.0)	(19,986)	(0.0)
Retained earnings	24,425,306	30.0	21,873,822	27.7
Non-controlling interests	582,797	0.8	566,453	0.7
Total equity	81,019,482	100.0	79,121,985	100.0

4.2.3 Loan quality analysis

In the first half of 2020, the Bank continued to improve the construction of its risk management system, improve its credit risk early warning and prevention and control mechanism, strengthen risk management and control in key areas and important links, steadily carry out the work of improving the quality of assets, and adhere to more prudent classification standards more than 90 days overdue loans were all included in non-performing loans, resulting in an increase in both the non-performing loans and non-performing loan ratio, potential non-performing risks declined and loan quality further improved.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.3.1 Breakdown of loans by the five-category classification system

The non-performing loans of the Bank are classified into loans and advances to customers that are substandard, doubtful and loss. As of 30 June 2020, the non-performing loans of the Bank amounted to RMB12,758 million, impairment provision on loans and advances to customers amounted to RMB16,594 million, and the non-performing ratio was 2.49%, representing an increase of 0.74 percentage point as compared with that at the end of the previous year. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Normal	490,867,727	95.7	438,471,766	95.9
Special mention	9,148,794	1.8	10,725,971	2.3
Substandard	12,162,821	2.4	7,604,069	1.7
Doubtful	481,381	0.1	339,883	0.1
Loss	113,814	0.0	60,686	0.0
Total loans and advance to customers	512,774,537	100.0	457,202,375	100.0
Non-performing loans	12,758,016	2.49	8,004,638	1.75

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.3.2 Concentration of loans

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

In the first half of 2020, the Bank adhered to the credit strategy of balancing advances and retreats, support and control, as well as protect and press and strengthened credit investment in key fields and key industries, in order to optimize credit structure. The following table sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020				As at 31 December 2019			
	Loan amount	of total %	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail trade	156,768,433	30.6	6,622,854	4.22	174,938,570	38.3	4,383,799	2.51
Renting and business activities	69,555,986	13.6	489,197	0.70	68,381,038	15.0	19,441	0.03
Real estate	62,220,656	12.1	840,347	1.35	35,280,158	7.7	675,309	1.91
Manufacturing	33,670,793	6.6	2,351,412	6.98	26,512,208	5.8	1,637,419	6.18
Construction	25,775,357	5.0	798,344	3.10	27,611,545	6.0	124,284	0.45
Culture, sports and entertainment	11,185,992	2.2	48,000	0.43	6,175,911	1.4	10,000	0.16
Transportation, storage and postal services	3,828,068	0.7	91,540	2.39	4,114,725	0.9	68,560	1.67
Accommodation and catering	3,468,108	0.7	63,699	1.84	3,422,891	0.7	48,710	1.42
Production and supply of electricity, heat, gas and water	3,069,645	0.6	47,458	1.55	3,548,293	0.8	9,478	0.27
Mining	2,153,271	0.4	107,280	4.98	2,488,580	0.5	19,597	0.79
Household Services and other Services	2,031,680	0.4	-	-	2,142,419	0.5	-	-
Agriculture, forestry, animal husbandry and fishery	588,799	0.1	61,579	10.46	1,161,819	0.3	15,450	1.33
Others	16,616,469	3.2	540,839	3.25	18,423,015	4.0	490,839	2.66
Discounted bills	58,344,294	11.4	-	-	25,488,939	5.6	-	-
Personal loans and advances	63,496,986	12.4	695,467	1.10	57,512,264	12.5	501,752	0.87
Total	512,774,537	100.0	12,758,016	2.49	457,202,375	100.0	8,004,638	1.75

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 30 June 2020, loans provided to customers of (i) wholesale and retail trade, (ii) renting and business activities sectors (iii) real estate, and (iv) manufacturing represented the largest components of the Bank's corporate loans. As at 30 June 2020 and 31 December 2019, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB322,216 million and RMB305,112 million, respectively, accounting for 62.9% and 66.8%, with respect to the Bank's total loans and advances to customers.

2. Concentration in terms of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers as at 30 June 2020. As of the same date, all such loans were classified as normal loans:

Customer	Industry involved	As at 30 June 2020	
		Amount	of total (%)
Customer A	Renting and business activities	9,500,000	1.85
Customer B	Culture, sports and entertainment	8,000,000	1.56
Customer C	Renting and business activities	7,601,000	1.48
Customer D	Wholesale and retail trade	7,100,000	1.38
Customer E	Real estate	6,139,900	1.20
Customer F	Real estate	5,860,000	1.14
Customer G	Renting and business activities	5,543,730	1.08
Customer H	Manufacturing	5,541,900	1.08
Customer I	Real estate	5,300,000	1.03
Customer J	Real estate	5,130,000	1.00

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Distribution of Non-performing Loans by Product Type

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020			As at 31 December 2019		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	449,277,551	12,062,548	2.68	399,690,111	7,502,886	1.88
Short-term loans	186,954,479	9,700,588	5.19	161,443,571	5,326,026	3.30
Medium and long-term loans	203,978,778	2,361,960	1.16	212,757,601	2,176,860	1.02
Discounted bills	58,344,294	-	-	25,488,939	-	-
Retail loans	63,496,986	695,468	1.10	57,512,264	501,752	0.87
Residential mortgage	41,021,158	246,914	0.60	36,041,189	211,835	0.59
Personal business loans	694,675	126,690	18.24	587,963	122,410	20.82
Personal consumption loans	16,444,516	156,243	0.95	17,297,007	92,677	0.54
Credit card overdrawn	5,318,867	165,621	3.11	3,568,235	74,830	2.10
Other	17,770	-	-	17,870	-	-
Total	512,774,537	12,758,016	2.49	457,202,375	8,004,638	1.75

As at 30 June 2020 and 31 December 2019, the non-performing loan ratio of the Bank, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 2.49% and 1.75%, respectively.

As at 30 June 2020 and 31 December 2019, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 2.68% and 1.88%, respectively.

As at 30 June 2020 and 31 December 2019, the non-performing loan ratio of the Bank's personal loan was 1.10% and 0.87%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.4 Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the former China Banking Regulatory Commission. As at 30 June 2020, the Bank's core Tier-one Capital adequacy ratio and Tier-one Capital adequacy ratio and the both 11.52%, increased by 0.04 percentage point from the end of the previous year; and the capital adequacy ratio was 14.37%, decreased by 0.17 percentage point from the end of the previous year. Capital adequacy ratios at all tiers satisfied the regulatory requirements of the new regulation. The following table sets forth the relevant information of the Bank's capital adequacy ratio as of the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020	As at 31 December 2019
Core capital		
– Share capital	8,796,680	8,796,680
– Qualifying portion of capital reserve	26,931,360	26,931,360
– Surplus reserve	7,166,927	7,166,927
– General reserve	13,676,444	13,398,535
– Fair value reserve	(670,145)	399,979
– Provision reserve	130,097	8,215
– Retained earnings	24,425,306	21,873,822
– Qualifying portions of non-controlling interests	105,020	83,341
– Others	(19,984)	(19,986)
Core Tier-one Capital	80,541,705	78,638,873
Core Tier-one capital deductions	(188,164)	(192,308)
Net Core Tier-one Capital	80,353,541	78,446,565
Net Tier-one Capital	80,353,541	78,446,565

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020	As at 31 December 2019
Tier-two Capital		
– Qualifying portions of tier-two capital instruments issued	16,000,000	16,000,000
– Surplus provision for loan impairment	3,836,430	4,874,532
Net tier-two Capital	<u>19,836,430</u>	<u>20,874,532</u>
Net capital base	<u>100,189,971</u>	<u>99,321,097</u>
Total risk weighted assets	697,309,662	683,238,647
Core tier-one Capital adequacy ratio	11.52%	11.48%
Tier-one Capital adequacy ratio	11.52%	11.48%
Capital adequacy ratio	<u>14.37%</u>	<u>14.54%</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.5 Segment information

4.2.5.1 Summary of regional branches

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

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating income				Non-current assets ⁽¹⁾			
	For the period ended 30 June							
	2020		2019		30 June 2020		31 December 2019	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Northeast China	9,344,776	95.0	9,091,060	89.6	6,392,691	95.6	6,315,864	95.2
North China	308,727	3.1	655,024	6.5	263,287	3.9	281,612	4.2
Others	185,229	1.9	391,498	3.9	35,323	0.5	37,864	0.6
Total	9,838,732	100.0	10,137,582	100.0	6,691,301	100.0	6,635,340	100.0

Note:

- (1) Non-current assets include property and equipment, intangible assets, right-of-use assets and land use rights.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.5.2 Summary of business segments

Since this year, the Bank adhered to the concept of “returning to its roots and focusing on principal businesses” by accelerating the establishment of large company and sizable retail business and optimizing the business structure of the same industry. In the first half of 2020, the operating income of corporate banking business amounted to RMB6,258 million, accounting for 63.6% of the total operating income. The operating income of retail banking business amounted to RMB788 million, accounting for 8.0% of the total operating income. The operating income of treasury business amounted to RMB2,653 million, accounting for 27.0% of the total operating income.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2020		2019	
	Amount	of total %	Amount	of total %
Operating income				
Corporate banking	6,258,274	63.6	6,020,074	59.4
Retail banking	787,665	8.0	878,200	8.7
Treasury business	2,653,064	27.0	3,234,037	31.8
Others	139,729	1.4	5,271	0.1
Total	9,838,732	100.0	10,137,582	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.6 Off-balance Sheet Commitments

The following table sets forth the Bank's credit commitments as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2020	As at 31 December 2019
Credit Commitments		
Bank acceptances	130,363,383	146,246,742
Letters of guarantees	9,115,868	6,897,886
Letters of credit	14,285,974	11,159,555
Unused credit card commitments	13,344,263	10,617,675
Total	167,109,488	174,921,858

Note: For details of the off-balance sheet commitments, please refer to the "Credit Commitments" of Commitments and Contingent Liabilities in Note 38 to Financial Statements in the "Review Report of the Independent Auditors" section of this report.

4.3 BUSINESS OVERVIEW

4.3.1 Corporate Banking Business

The Bank insisted on focusing on the advantageous industry and strategic customer base with a large driving effect, broad growth prospects and risks that are quantifiable and controllable, and fully promote the professional business model of the industry. Focus was also placed on the construction of basic systems such as team, mechanism, product, technology and processes so as to drive breakthroughs in key businesses with system construction. In terms of operating relating to corporate customers operations, in accordance with the two-level management and three-level marketing mode of operation, the Bank continued to intensify the development of its capabilities in respect of basic customer operation, focused on improving its execution and market-oriented management level, effectively developed a business system that employed the “systematic marketing and sales at the frontline + product follow-up at the front office + assurance and support at the back office”, and provided customers with differentiated services and Integrated Product Program by following the customer-centric approach.

4.3.1.1 *Corporate deposits*

By adhering to the basic policy of “taking deposits as the key foundation of the Bank”, actively seized market opportunities, persistently deepening the identification of key customers, and focusing on the category of “high quality customers in high quality industries and mainstream customers in mainstream industries”, the Bank reinforced the marketing mode under the three-tier operational system comprising the head office, branches and sub-branches, promoted smooth development of key customers and key projects, strengthened the expansion capabilities of industrial chains as well as upstream and downstream for core customers, thus the development of customer structure showed a diversified, varied and high-level development trend. The Bank took various measures to actively absorb stable deposits at low cost, allocated resources efficiently and scientifically, formulated development plans for product research and development, devised an overall marketing plan and accomplished centralized investment of resources in key industries and core products. With the enhancement of the market influence and competitiveness of the Bank was enhanced continuously, and the foundation for corporate deposit growth was consolidated continuously. As of 30 June 2020, the balance of corporate deposits of the Bank amounted to RMB328,568 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.1.2 Corporate Loans

The Bank insisted on continuously improving the quality and efficiency of serving the real economy. With the support of key strategies and key projects of China, the Bank closely followed the national industrial policy, further promoting the growth of the regional economy, focused on competitive industries, and allocated credit resources to key areas and weak points of economic and social development. The Bank increased its support for green industries, technology innovation enterprises, private enterprises and small and micro enterprises. The Bank also optimized resource allocation, strengthened the duration management of credit assets, insisted on revitalizing its stock, and continuously increased its effort in recovering maturing loans, accelerated the flow of existing loans, and enhanced the liquidity of the bank's assets. Further, in expanding its scope of customer service, the Bank simultaneously improved the management level of the liquidity of, and the profit contribution from its asset business. There was also a continuous enhancement in the usage efficiency of credit capital and a persistent increase in the differentiated and refined management levels of customers. As of 30 June 2020, the balance of RMB corporate loans (excluding discounted bills) of the Bank amounted to RMB390,933 million, representing an increase of RMB16,732 million or 4.5% from the end of last year.

4.3.1.3 Trade Finance

The Bank actively implemented the national policies and measures of "stabilizing foreign trade" and "stabilizing foreign investment", took the customer as the center, provided trade settlement, trade financing, credit guarantee, supply chain finance and other one-stop comprehensive financial services. The Bank strengthened product innovation, in-depth industry research, and constantly enhanced the service ability for trade finance. As of 30 June 2020, the balance of trade financing in and out of the bank's balance sheet was RMB37,159 million, an increase of 25.3% compared with the end of last year, the clearance volume of the trade finance business was USD16,917 million, representing a year-on-year increase of 20.1%. Revenue from the trade finance business intermediary business amounted to RMB152 million.

4.3.2 Retail banking

The Bank was committed to establish an efficiency-oriented, customer-centric and high-quality retail banking operating system. In doing so, the bank firstly formulated multiple measures to focus on business operations, and took concerted efforts to increase the contribution from retail business. Through detailed management measures such as personal deposit, personal loan, wealth management, credit card, channel construction and scenario marketing, the scale of retail business was enlarged rapidly, and the contribution of retail business to the whole bank was increased comprehensively. Secondly, the Bank accelerated the building of a differentiated and specialized operating system for wealth management customers, mass finance customers and retail credit customers to create a sustainable development model. The Bank also developed ancillary service capability to perfect its diversified retail product system, an intelligent risk control system, a market-oriented organizational management system and an agile technology support system to open a new chapter in retail banking.

4.3.2.1 *Personal Deposits*

As the Bank had taken a firm attitude towards the implementation of the basic policy of “taking deposits as the key foundation of the Bank”, it promoted the continuous growth of retail liabilities through multiple channels and a full range of products. Firstly, with respect to strengthening the Bank’s ability in acquiring basic customers and operating the relevant business through special marketing of agency business targeted at general customers, the bank was equipped with differentiated exclusive rights and customized exclusive products, which enabled it to build an intelligent-based payroll platform and to intensify cooperation in relation to batch payments and large-scale collections on an agency basis. Secondly, with respect to the special marketing activities for deposits targeting at wealth customers, for target customers whose deposits had become due and who were subject to high-quality agency service or were potentially fallen into critical threshold, measures such as warm-up contact, follow-up invitation and on-site marketing were implemented step by step. Thirdly, with respect to the enhancement of the construction of branch network on a persistent basis, in term of the customer operation, work deployment, atmosphere creation, daily management and other aspects, the Bank comprehensively enhanced customer identification, product sales, event planning, process optimization and other capabilities in offering comprehensive services, which resulted in improving network productivity. Fourthly, with respect to the acceleration of the innovation and research and development of products, the Bank designed and developed a

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

series of special themed deposit receipts such as true feelings, reunion, and New Year by combining the same with emotional communication and festival etiquette and other elements, and set up an intelligent-based transfer platform for time deposits to meet the diverse needs of customers. As of 30 June 2020, the balance of personal deposits of the Bank was RMB281,587 million, representing an increase of RMB69,486 million, or 32.8%.

4.3.2.2 Personal Loans

The Bank continued to deepen its retail credit transformational development. Firstly, the Bank took the initiative to promote the development of personal housing mortgage loan business, actively worked together with leading real estate companies throughout China to promote mortgage business cooperation for quality projects, implemented the name-list system management, continuously optimized business processes, and perfected the entry management. Secondly, the Bank accelerated the pace of business restructuring, actively expanded the existing high-quality retail customer base, launched exclusive consumer credit products, and created a QR code equipped with the real-time pre-approval function for granting housing mortgage loans, so as to improve customer experience and promote loan placement. Thirdly, the Bank accelerated the construction of personal loan products system and service functions. Through integration of resources, construction of specialized teams and implementation of a full-process management and control, the Bank comprehensively enhanced the comprehensive operation capabilities relating to retail credit products. As of 30 June 2020, the balance of its personal loans amounted to RMB63,497 million, representing an increase of RMB5,985 million, or 10.4%.

4.3.2.3 Bank Cards

The Bank proactively promoted the business innovation of bank card products. By continuously expanding the application of bank cards in on-line and off-line payment scenarios such as on campus, during transportation and for smart parking purpose, all of which related to the customer's daily life such as clothing, food, accommodation, travel and entertainment, creating product functions such as asset transfer and fund certification underlying in the bank cards, and further enhancing customer service capabilities and service experience, the Bank was able to promote the steady development of bank card business. As of 30 June 2020, the Bank issued 15,434,800 debit cards in total, representing an increase of 556,300 cards from the beginning of the year, and the total amount of consumer transactions amounted to RMB29,416 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.2.4 Assets Management

The asset management business of the Bank was based on the development concept of “serving the whole bank’s customers for offering comprehensive financing service, serving the whole bank’s customers for offering wealth management service, serving the whole bank’s customers for promoting a stable deposit growth”. By taking customer demand as the core and developing marketable “hit” products, the Bank intensively and meticulously developed fixed-income product lines, focused on the complementary advantages of wealth management products, on-balance sheet liability products and agency sales products, which enabled itself to effectively meet the differentiated needs of its customer groups. The Bank had also made every effort to expand the endogenous momentum and extension boundaries of fund, to build a system for precise marketing in form of “electronic channel + physical channel”, which resulted in further expanding the flow of high-quality customers. The Bank introduced advanced concepts such as large-scale asset allocation and asset portfolio management, established an asset allocation system that comprehensively considered liquidity, profitability and compliance, effectively enhanced its active management capability and risk control capability, and formed a new pattern of steady and orderly revenue growth for our asset management business. As of 30 June 2020, the current scale of the Bank’s wealth management amounted to RMB61,986 million with a realized revenue of RMB408 million, and the net value ratio was 42.98%, representing an increase of 8.82 percentage points compared with the beginning of the 2020.

4.3.3 Capital and investment banking business

The Bank’s capital business adhered to the coordinated and unified operating principle of “safety, liquidity and profitability”. Firstly, it took the advantage of the phased market conditions under the loose monetary policy and accordingly optimized the structure of the financial market product portfolio, captured the right time to carry out band operation with an aim to constantly improving its trading capacity. Secondly, the adoption of measures such as implementing supporting policies, developing customized products and providing targeted guidance enabled the Bank to further secure its market position by acquiring mainstream customers and high-quality asset projects, which resulted in effectively enhancing its comprehensive marketing benefits. As of 30 June 2020, the Bank had a scale of the capital business of RMB480,235 million, and achieved a profit before taxation of RMB2,314 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Money Market Transactions

In accordance with the needs of asset and liability management, the Bank strengthened the construction of financing channels to maintain reasonable and safe liquidity across the Bank, maintained and expanded inter-bank customer relations, consolidated the inter-bank customer base, and effectively expanded financing sources. At the same time, the Bank gave play to the liquidity transmission role of the inter-bank market, adhered to the management of the liquidity mutual assistance reserve fund in Liaoning Province, and ensured a stable, smooth and efficient operation of the liquidity mutual assistance mechanism. In order to effectively balance the relationship between liquidity and profitability, the Bank continuously improved the level of inter-bank debt control, consciously and proactively carried out market making, and reduced the weighted financing cost rate on a continuous basis so as to reduce the cost of money market business and to increase efficiency. As of 30 June 2020, the balance of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements was RMB201,628 million, representing 20.6% of total liabilities of the Bank. The balance of deposits and placements with banks and other financial institutions and financial assets held under resale agreements was RMB21,155 million, representing 2.0% of the total assets of the Bank.

2. Investments in Securities and Other Financial Assets

Since the beginning of the 2020, due to the economic weakness and the epidemic situation, there was a significant fluctuation in the bond yield rate in the market. Based on the analysis of the market trend, the Bank captured the opportunity to operate the bond band and effectively increased the premium income level. The Bank tracked fund investment income on a daily basis, and dynamically adjusted fund investment structure in a timely manner based on fund business performance to increase the level of income during the holding period. By accelerating the creation of investment banking products, the Bank successfully issued corporate credit asset backed securities making it the first city commercial bank to issue inter-bank credit asset securitization products in 2020. The Bank actively participated in the anonymous click business in the inter-bank market to increase transaction activities while grasping the pulse of interest rate changes. and was rated as an X-Lending active institution in the first half of the 2020.

4.3.4 Specialised institutions and subsidiaries

4.3.4.1 *Financial service center for Small Businesses*

The financial service center for small businesses of the Bank attached great importance to financial services of small and micro enterprises and thoroughly implemented various inclusive financial policies of the State and regulatory agencies. By strengthening its responsibility, the financial service center for small businesses actively implemented the concept of inclusive finance, focused on the strategic vision of “building a sound bank”, insisted on serving the real economy, improved the service system, streamlined business processes, and effectively improved the availability and inclusiveness of financial services.

The Bank intensified its policy support on the scale of loans to small and micro enterprises to ensure that credit funds were effectively granted to inclusive small and micro enterprises. The Bank also further implemented customer-oriented strategies and targeted supply chains, business circle, governments, guarantee providers, insurance companies as its main customer acquisition channels with an aim to achieve granting loans to small and micro enterprises in the form of “1 + N, 1 + 1”. On the basis of the business traction of traditional small and micro enterprises, the Bank will continue to develop innovative products exclusively for small and micro enterprises and created a variety of product systems to meet the financial needs of small and micro enterprises which were of different types and in different stages of development, and to provide diversified and one-stop financing service for high-quality small and micro enterprises.

4.3.4.2 Credit card center

The credit card center of the Bank took the pursuit of high-quality development as its top priority, actively promoted the transformation from “scale” to “efficiency”, insisted in operating business in a compliant and stable manner, and strived to achieve effective customer acquisition at low cost and in large scale. Firstly, the Bank continued to enrich its product offerings by launching brand new premium platinum card, Tencent micro-plus card, Tuhu Co-branded Card and “Chechifen” products. Secondly, the bank took the concept of “science and technology” into practice, and launched the online operation of Life APP2.0 and credit card N2+ system. Thirdly, the Bank completed the FICO risk analysis and consultation project in time by making use of the intelligent-base risk control measures. Fourthly, the Bank strengthened its cross-border cooperation, and cooperated with the China UnionPay to carry out the promotional activities of “fighting the epidemic and promoting consumption”, and worked together with Baidu, JD, Meituan and Suning to create a new ecosystem of online customers, so as to realize multi-channel and all-round customer acquisition operations as well as to effectively improve customer loyalty. Fifthly, in accordance with the relevant requirements as set forth in notices issued by the China Banking Insurance Regulatory Commission, services such as deferred repayment and reduction of interest were made available to cardholders affected by the epidemic, which resulted in a cumulative reduction of customer interest and liquidated damages of approximately RMB500,000.

As of 30 June 2020, there were in aggregate 1,434,500 credit cards issued by the Bank, representing an increase of 331,400 cards or 30.0% from the beginning of the year; the aggregated transaction amount reached RMB14,898 million, representing a year-on-year increase of 241.8%, and trading volume in a single month exceeded RMB2,800 million; the balance of existing credit card loans amounted to RMB5,319 million, representing an increase of RMB1,751 million or 49.1% from the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.4.3 Shengjing Bank Consumer Finance Co., Ltd.

Shengjing Bank Consumer Finance Co., Ltd. (“Shengjing Consumer Finance”) was the first consumer financial company established by the Bank as its major contributor and was approved to start business in February 2016. In the first half of 2020, the company focused on vigorously implementing the work theme of “identifying strategies, controlling risk, enhancing team-building”. The Bank also steadily improved the level of corporate governance, actively expanded financing channels, strengthened brand building and publicity, promoted the construction of information technology system, continuously strengthened comprehensive risk management, and continued to promote business transformation and development. Through closely integrating the features through which the company secured its market position, namely “inclusive finance, online scenarios, shareholder ecology and Liaoshen characteristics”, the company had built its core competitiveness characterized by high-quality talents, high-tech guidance, and high-level risk control, which gradually developed itself into a boutique consumer finance company with industry influence.

As at 30 June 2020, Shengjing Consumer Finance had the total assets of RMB4,179 million, the loan balance of RMB3,766 million and an aggregate of 3,021,700 customers to whom the company provide services for. During the Reporting Period, Shengjing Consumer Finance achieved an operating income of RMB299 million, a profit before provision of RMB658,562 million and a non-performing loan ratio of 0.19%.

4.3.4.4 Village banks

As of 30 June 2020, the Bank was the principal contributor to jointly establish six Village Banks, four of which are located in Shenyang City in Liaoning Province, being Shenyang Shenbei Fumin Rural Bank, Shenyang Xinmin Fumin Village Bank, Shenyang Faku Fumin Rural Bank, Shenyang and Liaozhong Fumin Village Bank; the other two being Ningbo Jiangbei Fumin Rural Bank in Ningbo, Zhejiang Province and Shanghai Baoshan Fumin Rural Bank in Shanghai. All six Fumin Village Banks are independent legal entities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Village Banks established by the Bank actively implemented the Bank's overall development strategy, faithfully fulfilled their social responsibilities, adhered to the business philosophy of "supporting agriculture, rural areas and farmers", positioned itself in the market "based on villages and towns, serving agriculture, rural areas and farmers, and supporting small and micro enterprises", and serviced customers that are small and micro enterprises in counties and the market-oriented rural households. In the principle of granting credit in small-amount and diversified way, it provided financial services to customers in the form of small-amount credit products, and effectively promoted the operation and development of Village Banks. During the Reporting Period, the Bank improved the management mode of the Village Banks, and strengthened the guidance and support to the operation development and risk control of the Village Banks through the efficient coordination and cooperation between the head offices and branches.

4.3.5 Distribution Channels

4.3.5.1 Physical Outlets

The Bank accelerated the planning and layout of outlets. As of 30 June 2020, the Bank operated businesses through its head office, 3 branch-level specialised institutions, 18 branches and 178 traditional sub-branches and 6 small and micro sub-branches, together with 6 village banks and one Shengjing Bank Consumer Finance Co., Ltd. which are located in 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning Province. Most of the operating institutions are located in developed regions such as Northeast China Region, the Bohai Rim and the Yangtze River Delta Economic Zones, which enjoy distinctive advantageous policies and huge market opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.5.2 Self-service Banking

The Bank accelerated the transformation of smart outlets to form a relatively comprehensive intelligent financial service system, focused on promoting the functional service upgrade of popularization and application of smart counter, remote video banking and high-speed cash recycling system, strengthened the monitoring and management of self-service equipment, improved use efficiency, released human resources, realized the combination of online and offline services, and further improved service functions and customer experience. As of 30 June 2020, the Bank owned 1,743 self-service facilities, including cash recycling systems, inquiry and payment machines, card activating machines, VTMs, online banking machines, mobile banking machines, smart counters, high-speed cash recycling systems and interactive desktops.

4.3.5.3 Electronic Banking

1. Online Banking

In order to provide better service to corporate customers to further enhance the corporate customer service experience, the Bank actively promotes the digital transformation, to update the corporate online banking 2.0, and to enrich online products. As at 30 June 2020, the Bank had a total of 36,900 online banking corporate customers, representing an increase of 15.0% compared to the end of the previous year; in the first half of 2020, the number of corporate online banking transactions reached 714,100, and the transaction amount was accumulated at RMB899,279 million.

The Bank persists in taking the customer as the center and continues to improve the functions and experience of personal online banking to meet customers' needs for convenient, safe and efficient online business processing. As of 30 June 2020, there were a total of 634,000 personal online banking. In the first half of the 2020, the number of transactions reached 419,400 and the transaction amount was accumulated at RMB41,697 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. *Mobile Banking*

The Bank actively promoted the upgrading of mobile end application services represented by mobile banking. The Bank continued to upgrade the functions of mobile banking, launched mobile banking wealth version for wealth customers, improved the customer application experience, and provided customers with smart, friendly and characteristic mobile financial service platform. By focusing on the daily needs of the customers, expanding services to online consultation, convenient payment and other life scenarios services function, the Bank offered customers with fast, friendly “finance + life” services. As of 30 June 2020, there were a total of 2,237,400 mobile banking customers, an increase of 18.8% compared with the beginning of the year; In the first half of 2020, the total number of mobile banking customers reached 2,237,400, an increase of 18.8% over the beginning of the year; the accumulated transaction amount was RMB117,352 million, representing an increase of 645.7% over the same period of the previous year. The number of transactions reached 4,717,800, representing an increase of 151.8% over the same period of the previous year.

4.3.6 Information Technology and R&D

In the first half of 2020, the Bank accelerated the transformation of its information technology function to facilitate business expansion, participated in business innovation and R&D transformation, comprehensively enhanced the application value of information technology, and effectively enabled the business development of the whole Bank. Firstly, with respect to the adjustment of the strategy of information technology, by firmly following the overall development goals which served as the guidance for the Bank’s development, the Bank prepared the “Shengjing Bank Co., Ltd. Information Technology Development Plan of 2020-2022”, and developed innovative business models and service processes. It also promoted the in-depth integration of information technology and business, and put the idea of shifting technology from cost-centered to value-centered into practice. Secondly, with respect to optimizing the information technology architecture and improved the system operating capacities, projects relating to the upgrade of traditional core systems and comprehensive large-scale front-end systems were carried out to improve business processing efficiency and to lay down the foundation for an application architecture that meets future development needs. Thirdly, with respect to technology that enable the business development of the whole Bank, through placing focus on customer

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

experience, the Bank restructured its business processes, consolidated the payment infrastructure, enriched products and functions, achieved public-private collaboration, broadened customer acquisition channels, which resulted in successively launching the online operation of 8 information systems, such as the Internet open platform, retail credit management system, the specific online banking system for enterprises under the new generation, unified payment platform, online double recording system, and 419 business functions online work.

4.4 RISK MANAGEMENT

During the Reporting Period, the Bank focused on optimizing and improving the risk management system, establishing and improving various risk management systems, further refining the assignment system relating to risk director and credit risk early warning system, building a comprehensive risk management system integrated with the transformation and upgrading of business models, to realize the overall management of all kinds of risks, and to strengthen the risk awareness and compliance awareness of employees at all levels of the Bank, which resulted in effectively mitigating the existing risk and also controlling the new risk. At the same time, the Bank attached great importance to the instability and uncertainty caused by the COVID-19 pandemic to the domestic and foreign economies, earnestly implemented the national decision and deployment of epidemic prevention and control, actively adjusted and optimized risk management and control strategies, and actively responded to all kinds of potential risks, effectively alleviated the adverse impact of the epidemic. Firstly, with respect to the continuous improvement of the risk management decision-making system, the Bank revised the working system of the risk management committee under senior management and its credit review committee, and created the credit risk early warning committee. Secondly, in deepening the construction of credit risk management and control system, the Bank formulated annual credit policy and industry-specific credit policy guidelines, improved the key links of the credit process, optimized the credit review and approval process, strengthened risk early warning management and control, strictly controlled new risks, and continuously consolidated asset quality. Thirdly, with respect to strengthening the management and control of market risk limits, the Bank paid close attention to the changes in monetary policy and market interest rates, strengthened the monitoring of limit implementation, dynamically adjusted and optimized the position structure, and effectively controlled market risks. Fourthly, for the purpose of establishing and improving operational its risk management and control mechanisms, the Bank strengthened its process control, system control and personnel management, intensified its internal control efforts in conducting comprehensive investigation and imposing effective rectification measures relating to compliance and operational at a reasonable level. Fifthly, with respect to the enhancement of

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

liquidity risk resilience, the Bank optimized and improved liquidity risk management mechanisms and procedures, effectively prevented short-term payment risks, implemented liquidity risk limit management mechanisms, and improved the medium and long-term liquidity risk prevention and control capabilities. Sixth, with respect to the improvement of the level of prevention and control over information technology risk. The Bank established and improved its information technology risk monitoring, assessment and control mechanism, continued to strengthen information system security self-examination and inspection, and steadily improved the level of information technology risk monitoring.

4.4.1 Credit Risk Management

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

During the Reporting Period, the Bank proactively adjusted and optimized its credit policy. By adhering to the business philosophy of “taking compliance as the key foundation of the Bank”, and by following the principle of controlling the substantial risks and preventing the ultimate risks, the Bank implemented the product-driven business strategies, optimized industry and customer incremental arrangements, better consolidated its credit position by reducing or eliminating risks, and operated all business in an orderly and healthy manner through continuous optimization of its credit review and approval mechanism, and enhancement of the standardization and professionalism of credit management, all of which were based on the financing activities within the industry. Firstly, the credit system and mechanism was continuously improved. In keeping with the requirements of regulatory policies and in line with the strategic development needs, the Bank initially set up a professional review and approval mechanism with hierarchical classification, continuously improved the credit management system, continuously enriched the means and methods of credit management, and continuously improved the management of credit process, and continuously improved the quality and efficiency of credit review and approval. Secondly, the optimization of the asset structure achieved remarkable results. The Bank adhered to the principle of matching risks and benefits, focused on mainstream industries and mainstream customers such as strategic customers, regional leading enterprises and high-quality private enterprises, implemented industry financial policies and product-driven strategies to meet customers’ operational and financing needs, conducted pre-risk demonstration, and comprehensively used product structure, business model, risk pricing, risk control measures and other credit arrangements. Accordingly, the asset structure of

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

the Bank was further optimized to the extent that risks were controllable. Thirdly, in order to promote the orderly transformation of its existing business by way of classification, by adhering to the principle of maximizing the protection of rights and interests, adopting classified measures as the means, taking adjustment of the existing portfolio by either enhancing or and reducing accounts as the starting point with a focus on tackling tough problems, the Bank strengthened its risk protection measures by adding guarantor and mortgaged assets and locking in repayment arrangements to gradually reduce the risk of exposure. Further, in response to the relevant national policy, the Bank provided reasonable loan renewal support to customers who are more affected by the COVID-19 pandemic.

4.4.2 Operational Risk Management

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

The operational risk management objective of the Bank is to resolve various operational risks by establishing and improving the operational risk governance structure, identifying high-risk areas, and improving the level of operational risk management and control through effective risk control and mitigation measures. During the Reporting Period, the Bank continued to strengthen its risk management and control and operational risk investigation in terms of systems, processes, systems and personnel to achieve effective rectification. Firstly, the Bank continued to improve the construction of institutional system. By paying attention to the new regulations and new policies of the regulatory authorities, the Bank was able to ensure the applicability, effectiveness and standardization of the institutional system and operational links, and established a process management system with clear division of labor among the front, middle and back offices and mutual restraints. Secondly, the Bank strengthened the operational risk prevention capabilities. It effectively carried out operational risk assessment, identified and evaluated potential operational risks for existing and newly launched important products, business activities, business processes, information technology systems, personnel management, external factors and their changes, analyze the effectiveness of existing control activities, and proposed optimized control measures. Thirdly, the Bank increased its efforts in conducting the operational risk investigation. By combining the methods of on-site and off-site, regular and irregular, self-inspection and inspection, the Bank carried out various special risk investigations, which resulted in strengthening the monitoring and management of operational risks. The Bank also paid attention to vulnerabilities which frequent give rise to operational risks, and continued to correct the hidden risks in order to avoid the occurrence of the incidents.

4.4.3 Market Risk Management

Market risk refers to the risk of losses in the Bank's on-balance sheet and off-balance sheet business due to adverse changes of market prices (interest rates, exchange rates, commodity prices and stock prices etc.), mainly including interest rate risk and exchange rate risk.

1 *Market Risk of Bank Accounts*

1) *Interest Rate Risk Management of Bank Accounts*

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

During the Reporting Period, the outbreak of COVID-19 pandemic had a huge impact on global economy, and the oil price war and international issues further aggravated the complexity of the macro-environment, resulting in strong fluctuation in the financial market and also a constant increase in external uncertainties. Domestically, with more flexible and moderate monetary policies formulated by the central bank, and reasonable and sufficient market liquidity, the overall financial market remained stable, and the comprehensive application of LPR and the implementation of stock conversion further improved the transmission mechanism of monetary policies, and the reform of interest rate marketization continued to deepen. In the first half of 2020, the interest rate center represented a trend of rapid decline in the early stage and relative rise later, with the overall interest rate level representing a slight decrease compared with the end of the previous year. In this regard, in accordance with the latest revised Implementation Rules for the Stress Test on Interest Rate Risk Associated with Bank Accounts of Shengjing Bank (For Trial Implementation), the Bank carried out stress tests on a quarterly basis, enriched scenario setting of interest rate risk stress test of bank accounts, and added extreme scenario stress test to the re-pricing risk stress test, resulting

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

in further improving the effectiveness of stress tests. The Bank paid close attention to changes in the market interest rate and changes in the Bank's repricing cycle and gap in the LPR conversion process, actively managed the interest rate risk of bank accounts, fully utilized the guiding role of FTP to moderately extend the debt duration, and effectively managed the interest rate risks of the Bank's banking accounts by making adjustments to the re-pricing cycle of deposits and loans and the types of fixed and floating interest rates according to the target gap.

2) *Exchange Rate Risk Management of Bank Accounts*

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

During the Reporting Period, the Bank mainly applied foreign exchange exposure analysis to measure the size of exchange rate risk, and managed its foreign exchange risk by matching assets denominated in foreign currency with corresponding liabilities in the same currency. During the Reporting Period, the Bank's business operation was mainly denominated in RMB and the foreign exchange exposure accounted for an immaterial percentage of the total assets. The Bank's exchange rate risk continued to remain within the management objectives.

2. *Market Risk of Trading Accounts*

During the Reporting Period, the Bank continued to improve the market risk management structure, constantly enhanced the limit management system of inter-bank market risks, conducted quantitative evaluation for market risks and continued to assess limit indicators by items of exposure limit and stop-loss limit by applying such measurement methods as sensitivity analysis, duration, and Value of Risk (VaR) in the management of market risks in a comprehensive way. The Bank also carried out stress testing by making regular scenario assumptions

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

in the occurrence of extremely adverse scenarios. The Bank conducted periodical re-evaluation work for market risk management to verify the effectiveness of limit management and conducted post-event tests against stress tests as well as evaluation and improvement for market risk measurement model on basis of the re-evaluation results. The Bank re-evaluated the market value and monitored indicators on a daily basis and assessed the execution of market risk limit on a monthly basis. The Bank also regularly carried out stress testing on market risks, and identified that each market risk indicator operated in a stable manner and there was no occurrence of limit excision.

4.4.4 Liquidity Risk Management

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

During the Reporting Period, the Bank actively complied with the national macro-control policies, implemented regulatory requirements, constantly optimized and improved the management system and mechanism and procedures of liquidity risks on basis of a cautious and stable liquidity risk preference and enhanced liquidity risk management in an active and forward-looking way so as to ensure that the overall management measures were reasonable and effective, and also the liquidity of the Bank was stable and safe. Firstly, the Bank captured the favorable opportunity of periodical looseness in inter-bank market to optimize and adjusted the asset to liability structure, increased the reserve scale of liquidity assets, extended the duration of interbank liabilities as appropriate. and reasonably controlled indicators such as deposit to loan ratio and inter-bank liability ratio to gradually built a “fortress-style” asset to liability structure. Secondly, the Bank improved the construction of liquidity management system, carried out re-inspection on liquidity management system and amended the “Implementation Rules for Capital Position Management of Shengjing Bank” to further optimize and improve the liquidity reserve system and mutual assistance mechanism, and to ensure a smooth and efficient operation of the liquidity management system and procedures. Thirdly, the Bank strictly complied with management strategies, policies and procedures of liquidity risks and regulated liquidity risks management through cap management system, tier two reserve management system and capital position provision system and authorization system for large amount historical

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

accounts to enhance the prevention and control level of liquidity risks. Fourthly, the Bank strengthened the monitoring of liquidity indicators and limit management, monitored large amount capital transactions and changes in positions in real-time and scientifically set up liquidity gaps with various durations, all of which ensured that the payment and settlement process were conducted in a safety manner and that the liquidity regulatory indicators continued to meet the standards.

4.4.5 Information Technology Risk Management

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

During the Reporting Period, the Bank has implemented various safety management and control measures to further strengthen prevention and control level on information technology risks. Firstly, the Bank enhanced internal control by newly establishing and revising information technology systems regarding fields including system research and development, operation and maintenance management, safety management to constantly improve the construction of technology management systems. Secondly, the Bank conducted comprehensive review of safety control measure, identified weak sections in information safety, optimized short boards of safety prevention and protection and formulated a three-year development scheme for the construction of information safety system to constantly strengthen the safe technology prevention and protection system. Thirdly, the Bank carried out specific investigations regarding safety assessment on the electronic banking system, internet safety risk and outsourcing risks to identify potential risks timely and conduct rectification therein. Fourthly, the Bank engaged professional third party information safety service agencies to carry out routine safety review on the internet-based information system, monitor and control on phishing websites and counterfeit APPs and monitor internet safety, for the purpose of building up a safety defense line for internet application system. Fifthly, the Bank constantly conducted assessment and internal control on changing and releasing risks to guarantee safe and stable operation of information system.

4.4.6 Reputational Risk Management

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

During the Reporting Period, the Bank valued highly reputational risk management and took active measures to carry out prevention and control on and response to reputational risks. Firstly, the Bank strictly implemented 7*24 monitoring on public opinions to improve the timeliness and accuracy for monitoring, research and judgement and reporting of public opinions, and gave timely warnings on public opinion risks and strengthened emergency response to ensure early identification and rapid settlement of negative public opinions. Secondly, the Bank carried out regular investigation and warning on potential reputational risk factors and promoted the prevention and control on and treatment of risk sources by focusing on hot topics and main issues under the concern of media. Thirdly, the Bank established normalized external communication system with main media, regulatory departments and other relevant departments to address negative public opinions in a timely way. Fourthly, the Bank participated in trainings for public opinion analysts held by competent authorities in the industry to actively enhance professional literacy on analysis, research and judgement on public opinions and on emergency response and settlement. Fifthly, the Bank utilized media resources to the maximum to actively make public highlights of the Bank's operating results, material strategic measures, service offerings for small and medium enterprises, prevention and control on the COVID-19 pandemic and popularizing of financial knowledge to create a harmonious and sound public opinion environment.

4.4.7 Compliance Risk Management

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

The Bank advocates the principle of “compliance first” and deepens the concept of “taking compliance as the foundation”. Sticking to high level compliance with provisions of laws, regulations and regulatory requirements and rules and regulations of the Bank, the Bank conducts various operation management activities on basis of precautional operation to effectively implement the compliance management policy of “regulated behaviour, strong inspection, effective mechanism, and proper monitoring”. During the Reporting Period, faced with the continuing trend of “strong and strict regulation”, the Bank actively adjusted to new regulatory requirements, understood compliance orientation in a proper manner and ensured proper communication of regulatory requirements to further improve the effective system for internal control and compliance management. Firstly, the Bank continuously improved the compliance risk management system. The Bank strictly implemented the compliance risk management policy of the Bank, stuck to compliance operation, strengthened the bottom line mindset and implemented construction of whole process compliance mechanism to achieve effective identification and management of compliance risks. Secondly, the Bank strengthened its compliance risk prevention capabilities. The Bank effectively carried out system evaluation work, strengthened pre-argument of research and development of new business and new product, and improved compliance management functions such as compliance audit, compliance inspection, assessment and evaluation to achieve effective identification, monitoring, evaluation, management and reporting of compliance risks. The Bank took effective control measures against identified issues to safeguard compliance operation. Thirdly, in accordance with requirements of the CBIRC, the Bank carried out the work of “strengthening results of chaos control to facilitate compliance construction” and laid further foundation for internal control and compliance management by conducting comprehensive and integrated treatment in equity and corporate governance, macro policy implementation and credit management and other aspects.

4.4.8 Money Laundering Risk Management

The Bank strictly complied with national anti-money laundering laws and regulations and solidly performed statutory obligations and social responsibilities in respect of anti-money laundering. During the Reporting Period, the Bank continued to deepen the management of money laundering risk, and the overall level of anti-money laundering work of the Bank improved steadily. Firstly, the Bank conducted in-depth implementation of the requirements of each anti-money laundering law and regulation and strengthened the comprehensiveness and efficiency of systems to effectively improve the money laundering risk management and control capabilities of the Bank. Secondly, the Bank conscientiously implemented the “risk-based” anti-money laundering working principle, constantly optimized the anti-money laundering monitoring system, and strengthened the management of anti-money laundering and anti-terrorism financing monitoring list to constantly improve the management level of anti-money laundering and anti-terrorism financing. Thirdly, the Bank strictly implemented customer identification, and the system of identity information, transaction record preservation and the suspicious transaction reporting system, adhered to the risk orientation to continuously carry out anti-money laundering inspection and assessment and improve the quality and efficiency of anti-money laundering work. Fourthly, the Bank actively organized anti-money laundering training. In line with the latest situation and rules and regulations of anti-money laundering work, the Bank organized top-down learning and training in the Bank to further enhance the sense of responsibility and initiative of the Bank in anti-money laundering work. Fifthly, the Bank actively carried out anti-money laundering publicity activities. The Bank further promoted the effectiveness of illegal fund-raising and crime crackdown to further improve the public’s understanding of anti-money laundering work, and intensified the crackdown on and prevention from money laundering risks to jointly create a good social atmosphere for anti-money laundering.

4.4.9 Country-specific Risk Management

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

During the Reporting Period, in strict compliance with the relevant regulatory requirements of country-specific risk management, the Bank continued to promote country-specific risk management, closely monitored changes in country-specific risks, and conducted whole process management and control on business involved and regular country-specific risk assessment. As at the end of the Reporting Period, the Bank is exposed to immaterial country-specific risk and the overall country-specific risks are under control.

4.5 FUTURE PROSPECTS AND DEVELOPMENT STRATEGY

In 2020, the COVID-19 pandemic has brought unprecedented impacts on China's economic and social development. With effective control against the outbreak, enterprises progressively resumed operation and production under active national backup, resulting in the economic growth turning from negative to positive results in the second quarter, which represented super resilience and great potential in our national economy. However, the COVID-19 pandemic is still under global expansion and global economy faces multiple uncertainties and instabilities. Against such background, the Central Party has formulated requirements of "six protections" on basis of the "six stabilizations", the Central Bank has adopted sound monetary policies that are more flexible and appropriate, strengthened counter-cyclical adjustment to maintain reasonable and sufficient liquidity in the banking system, ensure stable operation in financial market, and guide commercial banks in improving their financial service capability, all of which aim to support the development of small and medium-sized enterprises, so as to comprehensively boost economic development.

The Bank will actively change the development concept by focusing on the strategic vision of "being a sound bank", stick to return to its roots and adhere to its principal business, comprehensively improve the level of refined management and enhance endogenous growth drivers. Firstly, adhere to the basic policy of "taking deposits as the key foundation of the Bank"(存款立行), focus on customers of "high quality customers in high quality industries and mainstream customers in mainstream industries", enhance customers loyalty through product and service innovation, increase deposit marketing efforts, and consolidate and expand core deposit growth capabilities. Secondly, strengthen asset and liability management, strengthen interest rate pricing, reasonably control capital costs, further optimize the ratio of interbank liabilities, and create "fortress-style" asset and liability structure. Thirdly, continue to improve the construction of the risk management system, strengthen the effectiveness of the operation of the matrix risk management system, improve the operation efficiency of the resident system of risk supervisors, strengthen unified credit management, and comprehensively enhance the ability to prevent new risks. Fourthly, closely follow the national policy guidance, practice the concept of inclusive finance, help the development of small, medium and micro enterprises, provide precise financial services for the real economy, and achieve integrated and resonant development with the real economy.

Looking forward to the second half of 2020, there is coexistence of opportunity and challenge, hope and difficulty. The Bank will stick to its development concepts, maintain its strategic positioning and proactively address challenges with determination and confidence in wining the hard fight. The Bank will enhance employee cohesion and strive bravely to, under the premise of guaranteeing quality and efficiency, achieve scale improvement and push forward high quality development with all due efforts.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

As at 30 June 2020, the Bank had a total of 8,796,680,200 Shares, comprising 6,455,937,700 Domestic Shares and 2,340,742,500 H Shares. During the Reporting Period, there was no change in the shareholding.

	At 31 December 2019		Change during the Reporting Period			At 30 June 2020	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic							
Shares by legal persons	6,334,189,139	72.01	nil	nil	nil	6,334,189,139	72.01
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	8.14	nil	nil	nil	715,743,100	8.14
1.2 Shareholding of private legal persons	5,618,446,039	63.87	nil	nil	nil	5,618,446,039	63.87
2. Shareholding of Domestic Shares natural persons	121,748,561	1.38	nil	nil	nil	121,748,561	1.38
3. H Shares	2,340,742,500	26.61	nil	nil	nil	2,340,742,500	26.61
Total	8,796,680,200	100.00	nil	nil	nil	8,796,680,200	100.00

Note:

At the end of the Reporting Period, the Bank had 3,464 holders of Domestic Shares and 147 holders of H Shares. In respect of the holders of Domestic Shares, 37 are state-owned shareholders, 106 are private corporate shareholders and 3,321 are natural person shareholders.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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

As at 30 June 2020, the top ten Shareholders of the Domestic Shares of the Bank are as follows:

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nan Chang) Co., Ltd. (恒大集團(南昌)有限公司)(“Evergrande Nan Chang”)	Private	3,201,680,000	36.40	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司)(“Shenyang Hengxin”)	State-owned	479,836,334	5.45	0
3	Liaoning Huibao International Investment Group Co., Ltd. (遼寧匯寶國際投資集團有限公司)(“Huibao International”)	Private	400,000,000	4.55	400,000,000
4	Xinhu Zhongbao Co., Ltd. (新湖中寶股份有限公司)(“Xinhu Zhongbao”)	Private	300,000,000	3.41	80,000,000
5	Founder Securities Co., Ltd. (方正證券股份有限公司)(“Founder Securities”)	Private	300,000,000	3.41	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)(“Shanghai Changxin”)	Private	200,000,000	2.27	0
7	Lianmei Group Co., Ltd. (聯美集團有限公司)(“Lianmei Group”)	Private	200,000,000	2.27	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. (瀋陽中油天寶(集團)物資裝備有限公司)(“Zhongyou Tianbao”)	Private	190,000,000	2.16	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)(“Shenyang Dayang”)	Private	120,000,000	1.36	59,760,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	1.34	0
Total			5,509,675,427	62.63	539,760,000

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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

As at 30 June 2020, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO) as recorded in the register required to be kept under Section 336 of the SFO, other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares of the Bank (%)	Percentage of the total share capital of the Bank (%)
China Evergrande Group ⁽¹⁾	Interest of a controlled corporation	3,201,680,000 (Long position)	49.59	36.40
Shenyang Hengxin ⁽²⁾	Beneficial owner	479,836,334 (Long position)	7.43	5.45
Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) ⁽²⁾	Interest of a controlled corporation	479,836,334 (Long position)	7.43	5.45
Huibao International ⁽³⁾	Beneficial owner	400,000,000 (Long position)	6.20	4.55
Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司) ⁽³⁾	Interest of a controlled corporation	400,000,000 (Long position)	6.20	4.55
Li Yuguo ⁽³⁾	Interest of a controlled corporation	400,000,000 (Long position)	6.20	4.55

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes:

1. China Evergrande Group (a Hong Kong listed company incorporated in the Cayman Islands; stock code:3333) is interested in 3,201,680,000 Domestic Shares. Such shares are held by Evergrande Nan Chang, an indirect wholly-owned subsidiary of China Evergrande Group.
2. According to the register of shareholders of the Bank as at 30 June 2020, Shenyang Hengxin held 479,836,334 Domestic Shares. Shenyang Hengxin was wholly-owned by Shenyang Industry Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司), which was in turn wholly-owned by the State-owned Assets Supervision and Administration Commission of Shenyang Municipal People's Government. By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) is deemed to be interested in the Shares held by Shenyang Hengxin.
3. According to the register of shareholders of the Bank as of 30 June 2020. Huibao International held 400,000,000 Domestic Shares in the Bank. Huibao International was wholly-owned by Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司), which was in turn controlled by Mr. Li Yuguo (李玉國) as Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司) is accustomed to act in accordance with Mr. Li Yuguo's direction pursuant to an agreement entered into between Mr. Li Yuguo and Chenjingyi (Beijing) Cultural Development Co., Ltd. By virtue of the SFO, Chenjingyi (Beijing) Cultural Development Co., Ltd. and Mr. Li Yuguo are deemed to be interested in the Shares held by Huibao International.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 30 June 2020, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO) as recorded in the register required to be kept under Section 336 of the SFO, other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares of the Bank (%)	Percentage of the total share capital of the Bank (%)
Zhengbo Holdings Limited ⁽¹⁾	Beneficial owner	400,000,000 (Long position)	17.09	4.55
Suen Cho Hung, Paul ⁽¹⁾	Beneficial owner/Interest of a controlled corporation	420,898,500 (Long position)	17.98	4.78
Future Capital Group Limited ⁽²⁾	Beneficial owner	400,000,000 (Long position)	17.09	4.55
Lo Ki Yan, Karen ⁽²⁾	Beneficial owner/Interest of a controlled corporation	410,610,000 (Long position)	17.54	4.67
Cheung Chung Kiu ⁽³⁾	Beneficial owner/Interest of a controlled corporation	324,651,500 (Long position)	13.87	3.69
Murtsa Capital Limited ⁽⁴⁾	Beneficial owner	203,676,000 (Long position)	8.70	2.32
Satinu Resources Group Ltd. ⁽⁴⁾	Interest of a controlled corporation	204,284,000 (Long position)	8.73	2.32
Oshidori International Holdings Limited ⁽⁵⁾	Interest of a controlled corporation	193,034,000 (Long position)	8.25	2.19
Cheng Yu Tung Family (Holdings II) Limited ⁽⁶⁾	Interest of a controlled corporation	179,518,060 (Long position)	7.67	2.04
Cheng Yu Tung Family (Holdings) Limited ⁽⁶⁾	Interest of a controlled corporation	179,518,060 (Long position)	7.67	2.04
Chow Tai Fook (Holding) Limited ⁽⁶⁾	Interest of a controlled corporation	179,518,060 (Long position)	7.67	2.04
Chow Tai Fook Capital Limited ⁽⁶⁾	Interest of a controlled corporation	179,518,060 (Long position)	7.67	2.04
Chow Tai Fook Nominee Limited ⁽⁶⁾	Beneficial owner/Interest of a controlled corporation	179,518,060 (Long position)	7.67	2.04

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes :

- (1) Suen Cho Hung, Paul directly held 20,898,500 H Shares of the Bank. Zhengbo Holdings Limited held 400,000,000 H Shares of the Bank. Zhengbo Holdings Limited was wholly-owned by Mr. Suen Cho Hung, Paul. By virtue of the SFO, Zhengbo Holdings Limited and Mr. Suen Cho Hung, Paul are deemed to be interested in the Shares held by Zhengbo Holdings Limited.
- (2) Lo Ki Yan, Karen directly held 610,000 H Shares of the Bank. Future Capital Group Limited held 400,000,000 H Shares of the Bank. Future Capital Group Limited was wholly-owned by Ms. Lo Ki Yan, Karen. Planetree Treasury Ltd held indirectly 10,000,000 H Shares of the Bank. Ms. Lo Ki Yan, Karen held 68.08% interests in Planetree Treasury Ltd. By virtue of the SFO, Ms. Lo Ki Yan, Karen is deemed to be interested in the Shares held by Future Capital Group Limited and Planetree Treasury Ltd.
- (3) Cheung Chung Kiu directly held 299,651,500 H Shares of the Bank. Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly-owned by Mighty Gain Enterprises Limited; Mighty Gain Enterprises Limited was wholly-owned by C C Land Holdings Limited; C C Land Holdings Limited was owned by Fame Seeker Holdings Limited as to 52.99%; Fame Seeker Holdings Limited was wholly-owned by Windsor Dynasty Limited; Windsor Dynasty Limited was wholly-owned by Mr. Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Fame Seeker Holdings Limited, Windsor Dynasty Limited and Mr. Cheung Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.
- (4) Murtsa Capital Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Limited was wholly-owned by Satinu Capital (HK) Limited; Satinu Capital (HK) Limited was wholly-owned by Satinu Holdings Limited; Satinu Holdings Limited was wholly-owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Capital (HK) Limited, Satinu Holdings Limited and Satinu Resources Group Ltd. are deemed to be interested in the shares held by Murtsa Capital Limited.

Satinu Markets Limited held 608,000 H Shares of the Bank. Satinu Markets Limited was wholly-owned by Satinu Holdings Limited; Satinu Holdings Limited was wholly-owned by HEC Securities Company Limited; HEC Securities Company Limited was wholly-owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Holdings Limited, HEC Securities Company Limited and Satinu Resources Group Ltd. are deemed to be interested in the shares held by Satinu Markets Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (5) Smart Jump Corporation (incorporated in the British Virgin Islands) held 3,034,000 H Shares of the Bank. Smart Jump Corporation (incorporated in British Virgin Islands) was wholly-owned by Smart Jump Corporation (incorporated in the Cayman Islands); Smart Jump Corporation (incorporated in Cayman Islands) was wholly-owned by Smart Jump Corporation (incorporated in the Marshall Islands); Smart Jump Corporation (incorporated in the Marshall Islands) was wholly-owned by Win Wind Capital Limited; Win Wind Capital Limited was wholly-owned by Oshidori International Holdings Limited. By virtue of the SFO, Smart Jump Corporation (incorporated in the Cayman Islands), Smart Jump Corporation (incorporated in the Marshall Islands), Win Wind Capital Limited and Oshidori International Holdings Limited are deemed to be interested in the shares held by Smart Jump Corporation (incorporated in British Virgin Islands).

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

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

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

Chow Tai Fook Nominee Limited directly held 52,576,500 H Shares of the Bank. Chow Tai Fook Nominee Limited was owned by Chow Tai Fook (Holding) Limited as to 99.90%; Chow Tai Fook (Holding) Limited was owned by Chow Tai Fook Capital Limited as to 81.03%; Chow Tai Fook Capital Limited was owned by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively, as to 48.98% and 46.65%.

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

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying Shares of the Bank as at 30 June 2020 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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

As at the end of the Reporting Period, Evergrande Nan Chang and Shenyang Hengxin held 3,201,680,000 Domestic Shares and 479,836,334 Domestic Shares of the Bank respectively, representing 36.40% and 5.45% of the Bank's total share capital, respectively.

5.4 INFORMATION ON SUBSTANTIAL SHAREHOLDERS AND DE FACTO CONTROLLERS OF DOMESTIC SHARES

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

Name of No. shareholder	Number of Shares held	Shareholding percentage	Reasons of being a substantial shareholder	Number of shares pledged (number)	Controlling shareholder	De facto controller	Parties acting in concert	Ultimate beneficial owner
1 Evergrande Nan Chang	3,201,680,000	36.40%	Holding 5% of more of the Bank's shares and appointing director	0	China Evergrande Group	Hui Ka Yan	Nil	Evergrande Nan Chang
2 Shenyang Hengxin	479,836,334	5.45%	Holding 5% of more of the Bank's shares and appointing director	0	Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司)	State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government	Nil	Shenyang Hengxin

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

No. shareholder	Name of shareholder	Number of Shares held	Shareholding percentage	Reasons of being a substantial shareholder	Number of shares pledged (number)	Controlling shareholder	De facto controller	Parties acting in concert	Ultimate beneficial owner
3	Huibao International	400,000,000	4.55%	Appointed director	400,000,000	Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司)	Li Yuguo	Nil	Huibao International
4	Xinhu Zhongbao	300,000,000	3.41%	Appointed director	80,000,000	Zhejiang Xinhu Group Co., Ltd	Huang Wei	Nil	Xinhu Zhongbao
5	Founder Securities	300,000,000	3.41%	Appointed director	0	Peking University Founder Group o., Ltd. (北大方正集團有限公司)	Peking University	Nil	Founder Securities
6	Shanghai Changxin	200,000,000	2.27%	Appointed supervisor	0	Chen Zhaogui	Chen Zhaogui	Nil	Shanghai Changxin
7	Lianmei Group	200,000,000	2.27%	Appointed Supervisor	0	Lhasa Economic and Technological Development Zone Lianmei Holdings Co., Ltd. (拉薩經濟技術開發區聯美控股有限公司)	Su Zhuangqiang	Nil	Lianmei Group
8	Shenyang Dayang	120,000,000	1.36%	Appointed supervisor	59,760,000	Yu Haobo	Yu Haobo	Nil	Shenyang Dayang
9	Liaoning Huafeng Investment Co., Ltd. (遼寧華峰投資有限公司)	100,000,000	1.14%	Appointed director	49,800,000	Liaoning Shengshi Holdings Management Group Co., Ltd. (遼寧盛世控股管理集團有限公司)	Bao Lijun	Nil	Liaoning Huafeng Investment Co., Ltd. (遼寧華峰投資有限公司)

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

5.5 ISSUANCE OF DEBT SECURITIES

1. Debt Securities Issued

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

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

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

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

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

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

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

2. Proposed Issuance of Debt Securities

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

The Board has resolved, and the Shareholders have approved at the 2019 annual general meeting of the Bank held on 5 June 2020 that, subject to necessary governmental and regulatory authorities, the Bank will issue financial bonds in the aggregate principal amount of up to RMB30 billion to members of the interbank bond market in China, of which, Tier-two Capital bonds shall not exceed RMB15 billion and other types of financial bonds shall not exceed RMB15 billion. The bonds will have a term of up to 10 years (inclusive) and the Tier-two Capital bonds will have a term of no less than 5 years. The interest rate of the bonds will be determined with reference to the market interest rate. The proceeds from the issuance of the bonds, after deducting issuance expenses, will be used to optimise the liability and capital structure, stabilized resources of medium and long-term funds and support the development of medium and long-term asset business; the proceeds from issuance of Tier-two Capital will be used to replenish the Bank's Tier-two Capital and improve capital adequacy to support the sustainable and stable development of its business.

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

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

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2020, the Directors, Supervisors and senior management of the Bank comprised:

Name	Age	Position
Mr. QIU Huofa (邱火發)	60	Executive Director, Chairperson of the Board
Mr. SHEN Guoyong (沈國勇) ^{Note}	49	Executive Director, President
Mr. WANG Yigong (王亦工)	54	Executive Director, Vice President
Mr. WU Gang (吳剛)	50	Executive Director, Vice President
Mr. ZHANG Qiyang (張啟陽)	55	Non-executive Director
Mr. LIU Yanxue (劉彥學)	54	Non-executive Director
Mr. LI Jianwei (李建偉)	60	Non-executive Director
Mr. LI Yuguo (李玉國)	66	Non-executive Director
Mr. YUEN Wing Shing (袁永誠)	73	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	60	Non-executive Director
Mr. NI Guoju (倪國巨)	66	Independent Non-executive Director
Mr. KEUNG Chak (姜策)	60	Independent Non-executive Director
Mr. TAI Kwok Leung, Alexander (戴國良)	62	Independent Non-executive Director
Mr. XING Tiancai (邢天才)	58	Independent Non-executive Director
Mr. LI Jinyi (李進一)	56	Independent Non-executive Director
Mr. YANG Liya (楊利亞)	57	Employee Supervisor, Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	55	Employee Supervisor
Mr. WANG Lijun (王立軍)	39	Employee Supervisor
Mr. PAN Wenge (潘文戈)	54	Shareholder Supervisor
Mr. LIU Huidi (劉惠弟)	59	Shareholder Supervisor
Mr. YU Haobo (于浩波)	55	Shareholder Supervisor
Mr. BA Junyu (巴俊宇)	65	External Supervisor
Mr. SUN Hang (孫航)	54	External Supervisor
Mr. DAI Qiang (戴強)	54	External Supervisor
Mr. SUN Yonghseng (孫永生)	60	Vice President
Mr. ZHANG Xuwen (張學文)	52	Vice President
Ms. ZHANG Jun (張璿)	49	Vice President
Ms. LI Ying (李穎女士)	52	Chief Risk Officer
Mr. ZHOU Zhi (周峙)	51	Secretary of the Board
Mr. BAO Hong (包宏先生)	48	Chief Information Officer
Ms. LI Zheng (歷崢女士)	34	Director of Human Resources

Note: The election of Mr. SHEN Guoyong as an executive Director will be proposed for approval by shareholders at the general meeting of the Bank. The qualification of Mr. SHEN Guoyong as an executive Director is subject to the official approval of the CBIRC Liaoning Bureau.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

As at 30 June 2020, to the knowledge of the Directors after making reasonable enquiries, the interests or short positions of the Directors, the Supervisors and the chief executives of the Bank and their respective associates in the shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Domestic Shares

Name	Positions held at the Bank	Number of Nature of interests	Domestic Shares held of the Bank (share)	Representing percentage with respect to Domestic Shares of the Bank (%)	Representing percentage with respect to the total share capital of the Bank (%)
LI Yuguo (李玉國)	Non-executive Director	Interest of a controlled corporation	400,000,000 ⁽¹⁾	6.1958	4.5472
SHI Yang (石陽)	Employee Supervisor	Beneficial owner	107,684	0.0017	0.0012
		Interest of spouse	5,722	0.0001	0.0001
WU Gang (吳剛)	Executive Director, Vice President	Beneficial owner	146,149	0.0023	0.0017

Note:

- (1) Please see the report "CHANGE IN SHARE CAPITAL AND SHAREHOLDERS – INTERESTS AND SHORT POSITIONS OF THE SECURITIES AND FUTURE ORDINANCE (THE "SFO") OF HONG KONG" for details.

Save as disclosed above, none of the Directors, the Supervisors, or the chief executives and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 30 June 2020 which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Reference is made to the announcement of the Bank dated 17 January 2020. Mr. ZHANG Qiang has resigned from the positions of president, executive Director, vice Chairman of the risk control and consumers' rights protection committee of the Board, member of the strategic development committee of the Board with effect from 17 January 2020 due to change of work.

On the meeting of the Board of the Bank held on 17 January 2020, Mr. XIAO Ruiyan ("Mr. XIAO") has been elected as the candidate for an executive Director and appointed as the president of the Bank. Reference is made to the announcement of the Bank dated 29 May 2020. The qualification of Mr. XIAO as the president of the Bank has been approved by the CBIRC Liaoning Bureau with his term of office commencing from 27 May 2020. Reference is made to the announcement of the Bank dated 6 July 2020. Mr. XIAO has resigned from the position of the president of the Bank due to change of work with effect from 6 July 2020. The resolution regarding the proposed election of Mr. XIAO as an executive Director of the Bank will not be proposed to the general meeting of the Bank for consideration.

Mr. LI Xin has resigned from the position of the vice president of the Bank since February 2020.

Ms. ZHANG Jun has been appointed as the vice president of the Bank at the meeting of the Board dated 27 March 2020. The qualification of Ms. ZHANG Jun to serve as the vice president of the Bank was approved by the CBIRC Liaoning Bureau on 19 August 2020, with her term of office commencing from 19 August 2020.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Ms. LI Ying has been appointed as the chief risk officer of the Bank at the meeting of the Board dated 27 March 2020. The qualification of Ms. LI to serve as the chief risk officer of the Bank has been approved by the CBIRC Liaoning Bureau on 3 July 2020, with her term of office commencing from 3 July 2020.

Mr. BAO Hong has been appointed as the chief financial officer of the Bank at the meeting of the Board dated 27 March 2020. The qualification of Mr. BAO to serve as the chief financial officer of the Bank has been approved by the CBIRC Liaoning Bureau on 3 July 2020, with his term of office commencing from 3 July 2020.

On the meeting of the Board of the Bank held on 6 July 2020, Mr. SHEN Guoyong has been elected as the candidate for an executive Director and appointed as the president of the Bank. The election of Mr. SHEN Guoyong as an executive Director will be proposed for approval by shareholders at the general meeting of the Bank. The qualification of Mr. SHEN Guoyong as an executive Director of the Bank is subject to official approval from the CBIRC Liaoning Bureau. The qualification of Mr. SHEN to serve as the President of the Bank was approved by the CBIRC Liaoning Bureau on 19 August 2020, with his term of office commencing from 19 August 2020.

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

6.3 SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

6.4 EMPLOYEES, EMPLOYEES' COMPENSATION POLICIES AND TRAINING SCHEMES

As at 30 June 2020, the Bank had a total of 6,307 employees.

The Bank has established a compensation management system that is on basis of performance assessment and consistent with sustainable development of the Bank. Employee compensation consists of fixed salary, variable salary, and welfare income. It is determined by employee ability and results of performance assessment, which gives full play to the incentive and bounding functions of compensation and takes into account external competitiveness and internal equity. The Bank contributes to its employees' social insurance and provides housing funds company pension, supplementary medical insurance and other employee benefit in accordance with the provisions of PRC laws, rules and regulations.

According to its overall development strategies and training plans, aiming at guiding employees to realize vocational value and improving position contribution level, the Bank has organized level-based and category-based training sessions by focusing its training contents to enhancing the awareness of compliance management, risk control, marketing and practical operation and promoting capability, dedicating to allocation and utilization of human resources in the whole Bank and associating the core operation work for the year. In the first half of 2020, the Bank has conducted a total of 39,732 person times training sessions.

SIGNIFICANT EVENTS

7.1 CORPORATE GOVERNANCE CODE

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

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

7.2 EARNINGS AND DIVIDENDS

The Bank's revenue for the six months ended 30 June 2020 and the Bank's financial position as at the same date are set out in the section headed "Interim Financial Statements".

Upon consideration and approval at the Bank's 2019 annual general meeting held on 5 June 2020, the Bank decided not to distribute any cash dividend or bonus shares, nor convert any capital reserve into share capital.

The Bank will not distribute any interim dividend for the first six months of 2020 or convert any capital reserve into share capital.

7.3 RELATED PARTY TRANSACTIONS

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

7.4 MATERIAL LITIGATION AND ARBITRATION

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

7.5 PLEDGE OF ASSETS

Details of the Bank's pledge of assets for the six months ended 30 June 2020 are set out in the financial statement.

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

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

7.7 REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN

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

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up

SIGNIFICANT EVENTS (CONTINUED)

for 36 months from completion of the A Share Offering (the “Lock-up Period”). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables), and will repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank’s written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

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

As at the end of the Reporting Period, the balance of the Relevant Receivables was approximately RMB654 million, and the balance of the impairment provision was RMB273 million.

7.8 REVIEW OF THE INTERIM RESULTS REPORT

Financial statements disclosed herein have not been audited. The interim financial statements for the six months ended 30 June 2020 prepared by the Bank in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410.

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

7.9 PUBLICATION OF INTERIM RESULTS REPORT

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

REVIEW REPORT OF THE INDEPENDENT AUDITORS

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

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 95 to 229 which comprises the consolidated statement of financial position of Shengjing Bank Co., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) as of 30 June 2020 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The 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.

REVIEW REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 August 2020

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020
(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	Six months ended 30 June	
		2020	2019
Interest income		20,838,858	22,290,578
Interest expense		(13,355,516)	(15,418,393)
Net interest income	5	7,483,342	6,872,185
Fee and commission income		886,758	694,484
Fee and commission expense		(305,858)	(83,238)
Net fee and commission income	6	580,900	611,246
Net trading gains	7	2,935,347	1,302,617
Net gains arising from investments	8	2,335,148	2,933,500
Net foreign exchange losses		(3,638,101)	(1,589,387)
Other operating income	9	142,096	7,421
Operating income		9,838,732	10,137,582
Operating expenses	10	(2,212,683)	(2,011,047)
Impairment losses on assets	11	(4,372,912)	(4,596,742)
Profit before taxation		3,253,137	3,529,793
Income tax expense	12	(407,400)	(385,602)
Profit for the period		2,845,737	3,144,191
Net profit attributable to:			
Equity shareholders of the Bank		2,829,393	3,156,059
Non-controlling interests		16,344	(11,868)
		2,845,737	3,144,191

The notes on pages 106 to 229 form part of this interim financial report.

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

For the six months ended 30 June 2020

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

	Note	Six months ended 30 June	
		2020	2019
Net profit		2,845,737	3,144,191
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		2	(7)
– Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		(213,706)	–
Items that may be reclassified subsequently to profit or loss			
– Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve		(856,418)	(714,706)
– net movement in the provision reserve		121,882	4,988
Other comprehensive income net of tax		(948,240)	(709,725)
Total comprehensive income		1,897,497	2,434,466
Total comprehensive income attributable to:			
Equity shareholders of the Bank		1,881,153	2,446,334
Non-controlling interests		16,344	(11,868)
		1,897,497	2,434,466
Basic and diluted earnings per share (<i>in RMB</i>)	13	0.32	0.54

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020
(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2020	31 December 2019
Assets			
Cash and deposits with central bank	14	76,386,391	90,533,151
Deposits with banks and other financial institutions	15	11,272,658	21,104,213
Placements with banks and other financial institutions	16	5,899,576	8,198,954
Derivative financial assets	17	7,012,163	3,379,675
Financial assets held under resale agreements	18	3,982,562	18,713,438
Loans and advances to customers	19	501,766,427	446,375,521
Financial investments:			
Financial assets at fair value through profit or loss	20(a)	160,602,564	156,691,876
Financial assets at fair value through other comprehensive income	20(b)	45,330,431	33,451,350
Financial assets measured at amortised cost	20(c)	231,821,408	227,348,966
Property and equipment	21	5,835,630	5,702,278
Deferred tax assets	22	2,798,200	4,129,576
Other assets	23	5,681,274	5,851,798
Total assets		1,058,389,284	1,021,480,796

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2020	31 December 2019
Liabilities			
Borrowings from central bank	24	6,839,521	6,793,977
Deposits from banks and other financial institutions	25	101,930,677	96,837,332
Placements from banks and other financial institutions	26	9,089,217	6,589,301
Financial liabilities at fair value through profit or loss		25,078,940	26,520,878
Derivative financial liabilities	17	831,053	694,473
Financial assets sold under repurchase agreements	27	90,607,636	60,117,133
Deposits from customers	28	655,559,388	655,070,994
Income tax payable		–	1,605,476
Debt securities issued	29	74,860,982	80,993,054
Other liabilities	30	12,572,388	7,136,193
Total liabilities		977,369,802	942,358,811

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 30 June 2020
(Expressed in thousands of RMB, unless otherwise stated)*

	<i>Note</i>	30 June 2020	31 December 2019
Equity			
Share capital	31	8,796,680	8,796,680
Capital reserve	32(a)	26,931,360	26,931,360
Surplus reserve	32(b)	7,166,927	7,166,927
General reserve	32(c)	13,676,444	13,398,535
Fair value reserve	32(d)	(670,145)	399,979
Provision reserve	32(e)	130,097	8,215
Deficit on remeasurement of net defined benefit liability	32(f)	(19,984)	(19,986)
Retained earnings		<u>24,425,306</u>	<u>21,873,822</u>
Total equity attributable to equity shareholders of the Bank		80,436,685	78,555,532
Non-controlling interests		<u>582,797</u>	<u>566,453</u>
Total equity		<u>81,019,482</u>	<u>79,121,985</u>
Total liabilities and equity		<u>1,058,389,284</u>	<u>1,021,480,796</u>

Approved and authorised for issue by the board of directors on 28 August 2020.

Qiu Huofa
Chairman of Board of Directors

Shen Guoyong
President

Bao Hong
Chief Financial Officer

Company chop

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank										Non-controlling interests	Total equity
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total		
Balance at 1 January 2020		8,796,680	26,931,360	7,166,927	13,398,535	399,979	8,215	(19,986)	21,873,822	78,555,532	566,453	79,121,985
Profit for the period		-	-	-	-	-	-	-	2,829,393	2,829,393	16,344	2,845,737
Other comprehensive income		-	-	-	-	(1,070,124)	121,882	2	-	(948,240)	-	(948,240)
Total comprehensive income		-	-	-	-	(1,070,124)	121,882	2	2,829,393	1,881,153	16,344	1,897,497
Appropriation of profit:												
– Appropriation to general reserve												
(Note (i))	33	-	-	-	277,909	-	-	-	(277,909)	-	-	-
Subtotal		-	-	-	277,909	-	-	-	(277,909)	-	-	-
Balance at 30 June 2020		8,796,680	26,931,360	7,166,927	13,676,444	(670,145)	130,097	(19,984)	24,425,306	80,436,685	582,797	81,019,482

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB128 thousand.

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

*For the year ended 31 December 2019
(Expressed in thousands of RMB, unless otherwise stated)*

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

Note:

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

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019 (Continued)
(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 July 2019		5,796,680	11,855,505	6,622,797	13,398,535	407,881	10,299	(13,884)	20,130,787	58,208,600	559,748	58,768,348
Profit for the period		-	-	-	-	-	-	-	2,287,165	2,287,165	6,705	2,293,870
Other comprehensive income		-	-	-	-	(7,902)	(2,084)	(6,102)	-	(16,088)	-	(16,088)
Total comprehensive income		-	-	-	-	(7,902)	(2,084)	(6,102)	2,287,165	2,271,077	6,705	2,277,782
Changes in share capital												
- Placement of domestic shares		2,200,000	10,986,653	-	-	-	-	-	-	13,186,653	-	13,186,653
- Placement of H-shares		800,000	4,089,202	-	-	-	-	-	-	4,889,202	-	4,889,202
Subtotal		3,000,000	15,075,855	-	-	-	-	-	-	18,075,855	-	18,075,855
Appropriation of profit:												
- Appropriation to surplus reserve	33	-	-	544,130	-	-	-	-	(544,130)	-	-	-
Subtotal		-	-	544,130	-	-	-	-	(544,130)	-	-	-
Balance at 31 December 2019		8,796,680	26,931,360	7,166,927	13,398,535	399,979	8,215	(19,986)	21,873,822	78,555,532	566,453	79,121,985

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020
(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2020	2019
Cash flows from operating activities			
Profit before taxation		3,253,137	3,529,793
<i>Adjustments for:</i>			
Impairment losses on assets		4,372,912	4,596,742
Depreciation and amortisation		308,073	286,776
Interest element of lease rentals paid		13,058	15,231
Unwinding of discount		–	(83,624)
Unrealised foreign exchange losses		57,976	2,308
Net gains on disposal of property and equipment		(136,966)	(128)
Dividend income		–	(1,200)
Net trading gains of financial assets at fair value through profit or loss		(3,486,399)	(1,322,479)
Net gains on disposal of financial investments		(2,175,489)	(2,817,099)
Interest expense on debt securities issued		1,547,651	3,375,763
Interest income on financial investments		(6,185,745)	(8,299,921)
		(2,431,792)	(717,838)
<i>Changes in operating assets</i>			
Net (increase)/decrease in deposits with central bank		(1,968,034)	3,471,399
Net decrease in deposits and placements with banks and other financial institutions		256,999	21,052,224
Net increase in loans and advances to customers		(55,251,755)	(42,275,427)
Net decrease in financial assets held under resale agreements		683,991	–
Net increase in other operating assets		(3,610,473)	(3,433,618)
		(59,889,272)	(21,185,422)

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2020
(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2020	2019
<i>Changes in operating liabilities</i>			
Net increase/(decrease) in borrowings from central bank		19,000	(11,160,000)
Net increase/(decrease) in deposits and placements from banks and other financial institutions		7,248,487	(5,951,401)
Net increase in financial assets sold under repurchase agreements		30,507,491	18,521,051
Net increase in deposits from customers		278,581	68,071,960
Income tax paid		(957,721)	(784,053)
Net increase in other operating liabilities		6,164,604	7,820,307
		<u>43,260,442</u>	<u>76,517,864</u>
Net cash flows (used in)/generated from operating activities		<u>(19,060,622)</u>	<u>54,614,604</u>
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		361,180,581	732,450,745
Proceeds from disposal of property and equipment		265,936	361
Payments on acquisition of investments		(376,080,200)	(726,289,721)
Payments on acquisition of property and equipment, intangible assets and other assets		(478,357)	(193,163)
Net cash flows (used in)/generated from investing activities		<u>(15,112,040)</u>	<u>5,968,222</u>

The notes on pages 106 to 229 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2020
(Expressed in thousands of RMB, unless otherwise stated)*

	<i>Note</i>	Six months ended 30 June	
		2020	2019
Cash flows from financing activities			
Net proceeds from new debt securities issued		93,507,749	186,427,226
Repayment of debt securities issued		(100,599,190)	(230,165,721)
Interest paid on debt securities issued		(588,282)	(2,418,676)
Dividends paid		(233,366)	(24,078)
Payment of lease liabilities		(88,428)	(109,605)
Net cash flows used in financing activities		<u>(8,001,517)</u>	<u>(46,290,854)</u>
Effect of foreign exchange rate changes on cash and cash equivalents			
		<u>154,982</u>	<u>4,026</u>
Net (decrease)/increase in cash and cash equivalents		(42,019,197)	14,295,998
Cash and cash equivalents as at 1 January		<u>75,319,708</u>	<u>42,094,149</u>
Cash and cash equivalents as at 30 June	34	<u><u>33,300,511</u></u>	<u><u>56,390,147</u></u>
Net cash flows generated from operating activities include:			
Interest received		<u>11,969,783</u>	<u>14,769,745</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(11,339,000)</u>	<u>(7,858,612)</u>

The notes on pages 106 to 229 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of RMB, unless otherwise stated)

1 REPORTING ENTITY

Shengjing Bank Co., Ltd. (the “Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). These consolidated interim financial statements (the “interim financial report”) as at and for the six months ended 30 June 2020 comprise the Bank and its subsidiaries (together referred to as the “Group”). The principal activities of the Group are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the China Bank Insurance Regulatory Commission (the “CBIRC”). The Bank mainly operated in mainland China, which, for the purpose of this interim financial report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

As at 30 June 2020, details of the subsidiaries are as follows:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board. It was authorised for issue on 28 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

Except as described below accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 31 December 2019. The changes in accounting policies are also expected to be reflected in the Group's annual financial statements for the year ending 31 December 2020. The principal effects of new and revised International Financial Reporting Standards ("IFRSs", including International Accounting Standards ("IASs")) are as follows:

Amendments to IFRS 3, Business Combinations "Definition of a business"

The IASB has issued amendments to IFRS 3 that seek to clarify the definition of business. The amendments include an election to use a concentration test. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The effect of these changes is that the new definition of a business is narrower, which could result in fewer business combinations being recognised. The amendments may require a complex assessment to decide whether a transaction is a business combination or an asset acquisition.

The adoption has no material impact on the financial position and the financial result of the Group.

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, "Definition of Material"

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved and the amendments ensure that the definition of material is consistent across all IFRS Standards.

The adoption has no material impact on the financial position and the financial result of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial instruments: Disclosures, "Interest Rate Benchmark Reform"

The IASB issued the amendments to IFRS 9, IAS 39 and IFRS 7, which aims to address uncertainties related to the ongoing reform of interbank offered rates ("IBOR").

The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The adoption has no material impact on the financial position and the financial result of the Group.

Amendment to IFRS 16, Leases "Covid-19-Related Rent Concessions"

The IASB has issued the amendment to IFRS 16, the amendment allows lessees, as a voluntary practical expedient, not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19 and meet the qualifying criteria. The amendment is effective for annual reporting periods beginning on or after 1 June 2020 with earlier application permitted.

The adoption has no material impact on the financial position and the financial result of the Group.

The Group does not adopt any issued but not yet effective international financial reporting standards, interpretations and amendments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING

(a) Business Segment

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

Corporate banking

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

Retail banking

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

Treasury business

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	Six months ended 30 June 2020				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	7,209,645	(2,491,658)	2,765,355	–	7,483,342
Internal net interest (expense)/ income	<u>(1,226,889)</u>	<u>2,978,058</u>	<u>(1,751,169)</u>	<u>–</u>	<u>–</u>
Net interest income	5,982,756	486,400	1,014,186	–	7,483,342
Net fee and commission income	273,465	300,951	6,484	–	580,900
Net trading gains	–	–	2,935,347	–	2,935,347
Net gains arising from investments	–	–	2,335,148	–	2,335,148
Net foreign exchange losses	–	–	(3,638,101)	–	(3,638,101)
Other operating income	<u>2,053</u>	<u>314</u>	<u>–</u>	<u>139,729</u>	<u>142,096</u>
Operating income	6,258,274	787,665	2,653,064	139,729	9,838,732
Operating expenses	(1,482,532)	(551,763)	(175,645)	(2,743)	(2,212,683)
Impairment losses on assets	<u>(3,881,075)</u>	<u>(328,901)</u>	<u>(162,936)</u>	<u>–</u>	<u>(4,372,912)</u>
Profit before taxation	<u>894,667</u>	<u>(92,999)</u>	<u>2,314,483</u>	<u>136,986</u>	<u>3,253,137</u>
Other segment information					
– Depreciation and amortisation	<u>217,232</u>	<u>84,009</u>	<u>6,832</u>	<u>–</u>	<u>308,073</u>
– Capital expenditure	<u>337,307</u>	<u>130,444</u>	<u>10,606</u>	<u>–</u>	<u>478,357</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	30 June 2020				Total
	Corporate Banking	Retail banking	Treasury business	Others	
Segment assets	499,862,879	75,492,804	480,235,401	–	1,055,591,084
Deferred tax assets					<u>2,798,200</u>
Total assets					<u><u>1,058,389,284</u></u>
Segment liabilities/Total liabilities	<u>366,779,121</u>	<u>292,933,563</u>	<u>317,548,827</u>	<u>108,291</u>	<u>977,369,802</u>
Credit commitments	<u>157,993,620</u>	<u>9,115,868</u>	–	–	<u>167,109,488</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information (Continued)

	Operating income	
	Six months ended 30 June	
	2020	2019
Northeast China	9,344,776	9,091,060
North China	308,727	655,024
Others	185,229	391,498
Total	9,838,732	10,137,582

	Non-current assets <i>(Note i)</i>	
	30 June	31 December
	2020	2019
Northeast China	6,392,691	6,315,864
North China	263,287	281,612
Others	35,323	37,864
Total	6,691,301	6,635,340

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME

	Six months ended 30 June	
	2020	2019
Interest income arising from		
Deposits with central bank	510,047	553,480
Deposits and placements with banks and other financial institutions	52,074	506,477
Loans and advances to customers		
– Corporate loans and advances	11,341,518	11,736,104
– Personal loans and advances	1,969,058	892,449
– Discounted bills	706,713	215,108
Financial assets held under resale agreements	73,703	87,039
Financial investments	6,185,745	8,299,921
Subtotal	20,838,858	22,290,578
Interest expense arising from		
Borrowings from central bank	(110,552)	(257,465)
Deposits and placements from banks and other financial institutions	(2,108,076)	(2,797,185)
Deposits from customers	(8,513,790)	(8,554,175)
Financial assets sold under repurchase agreements	(1,075,447)	(433,805)
Debt securities issued	(1,547,651)	(3,375,763)
Subtotal	(13,355,516)	(15,418,393)
Net interest income	7,483,342	6,872,185

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME (CONTINUED)

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2020 amounted to RMB20,833 million (the six months ended 30 June 2019 amounted to RMB22,268 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2020 amounted to RMB13,356 million (the six months ended 30 June 2019 amounted to RMB15,418 million).

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
Fee and commission income		
Agency and custody services fees	699,374	455,821
Settlement and clearing services fees	48,930	206,175
Bank card services fees	138,454	32,488
Subtotal	886,758	694,484
Fee and commission expense	(305,858)	(83,238)
Net fee and commission income	580,900	611,246

7 NET TRADING GAINS

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

8 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2020	2019
Net gains on financial assets at fair value through profit or loss	1,809,494	1,958,779
Net gains on disposal of financial assets at fair value through other comprehensive income	451,829	810,368
Net gains on disposal of financial assets measured at amortised cost	73,825	163,153
Dividends from designated as financial assets at fair value through other comprehensive income	—	1,200
Total	2,335,148	2,933,500

9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
Net gains on disposal of property and equipment	136,966	128
Rental income	1,936	3,220
Handling charge income	314	542
Government grants	72	1,545
Others	2,808	1,986
Total	142,096	7,421

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

10 OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
Staff costs		
– Salaries, bonuses and allowances	1,036,518	747,049
– Pension and annuity	64,945	124,121
– Other social insurance	48,078	118,345
– Housing allowances	57,434	47,723
– Supplementary retirement benefits	3,172	2,527
– Others	53,369	53,932
	1,263,516	1,093,697
Subtotal		
Depreciation and amortisation	221,200	206,540
Office expenses	148,022	160,127
Tax and surcharges	106,186	78,664
Depreciation charge for the right-of-use assets	86,873	80,236
Rental and property management expenses <i>(Note(a))</i>	40,907	32,442
Interest expense on lease liabilities	13,058	15,231
Other general and administrative expenses	332,921	344,110
	2,212,683	2,011,047
Total	2,212,683	2,011,047

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2020	2019
Deposits and placements with banks and other financial institutions	(334)	137,874
Financial assets held under resale agreements	(2,427)	3,054
Loans and advances to customers	4,116,855	4,806,729
Financial investments	165,697	(426,390)
Credit commitment	92,390	79,676
Others	731	(4,201)
	<u>4,372,912</u>	<u>4,596,742</u>
Total	<u>4,372,912</u>	<u>4,596,742</u>

12 INCOME TAX EXPENSE

(a) Income tax for the period:

	Six months ended 30 June	
	2020	2019
Current tax	49,898	730,859
Over-provision in prior years	(1,289,954)	(1,063)
Deferred tax		
– Confirm in current year	390,306	(344,194)
– Under-provision in prior years	1,257,150	–
	<u>407,400</u>	<u>385,602</u>
Total	<u>407,400</u>	<u>385,602</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended 30 June	
	2020	2019
Profit before taxation	<u>3,253,137</u>	<u>3,529,793</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	813,284	882,448
Non-deductible expenses		
– Entertainment expenses	1,826	1,628
– Others	1,062	661
Subtotal	2,888	2,289
Non-taxable income	(375,968)	(498,072)
Subtotal	440,204	386,665
Over-provision in prior years	(32,804)	(1,063)
Income tax	<u>407,400</u>	<u>385,602</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Six months ended 30 June	
	2020	2019
Net profit attributable to equity shareholders of the Bank	2,829,393	3,156,059
Weighted average number of ordinary shares (in thousands)	8,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	0.32	0.54

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

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June	31 December
		2020	2019
Cash on hand		988,894	877,084
Deposits with central bank			
– Statutory deposit reserves	14(a)	63,053,420	61,016,093
– Surplus deposit reserves	14(b)	12,197,560	28,421,050
– Foreign currency risk reserves	14(c)	–	80,749
– Fiscal deposits		117,623	106,167
Subtotal		75,368,603	89,624,059
Add: interest receivable		28,894	32,008
Total		76,386,391	90,533,151

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (CONTINUED)

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

	30 June 2020	31 December 2019
Reserve ratio for RMB deposits	10.5%	11.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
– Banks	10,445,549	16,882,175
– Other financial institutions	5,217	2,408
Deposits outside mainland China		
– Banks	<u>926,318</u>	<u>4,314,257</u>
Subtotal	11,377,084	21,198,840
Add: interest receivable	22,276	31,794
Less: provision for impairment losses	<u>(126,702)</u>	<u>(126,421)</u>
Total	<u><u>11,272,658</u></u>	<u><u>21,104,213</u></u>

(b) Movements of provision for impairment losses

	2020	2019
As at 1 January	126,421	8,743
Net charge for the period/year	<u>281</u>	<u>117,678</u>
As at 30 June/31 December	<u><u>126,702</u></u>	<u><u>126,421</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
– Banks	5,000,000	6,000,000
– Other financial institutions	900,000	2,200,000
Subtotal	5,900,000	8,200,000
Add: interest receivable	658	651
Less: provision for impairment losses	(1,082)	(1,697)
Total	<u>5,899,576</u>	<u>8,198,954</u>

(b) Movements of provision for impairment losses

	2020	2019
As at 1 January	1,697	760
Net (release)/charge for the period/year	(615)	937
As at 30 June/31 December	<u>1,082</u>	<u>1,697</u>

17 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Analysed by nature of contract

	30 June 2020		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	63,390,000	838,746	(794,349)
Currency swaps	19,284,272	63,658	(21,575)
Currency options	73,983,461	1,275	(15,129)
Precious metal derivatives	25,820,622	6,108,484	–
Total	<u>182,478,355</u>	<u>7,012,163</u>	<u>(831,053)</u>

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	73,490,000	390,679	(350,316)
Currency swaps	21,331,357	103,128	(188,640)
Currency options	61,400,792	1,155	(8,063)
Precious metal derivatives	27,327,424	2,869,316	(135,729)
Foreign exchange forwards	788,286	15,397	(11,725)
Total	<u>184,337,859</u>	<u>3,379,675</u>	<u>(694,473)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Analysed by credit risk-weighted amount

	30 June 2020	31 December 2019
Currency swaps	48,211	53,328
Foreign exchange options	184,959	153,502
Precious metal derivatives	64,552	68,319
Foreign exchange forwards	–	7,883
Total	<u>297,722</u>	<u>283,032</u>

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

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In mainland China		
– Banks	3,983,750	16,858,010
– Other financial institutions	–	1,852,491
Subtotal	<u>3,983,750</u>	<u>18,710,501</u>
Add: interest receivable	205	6,757
Less: provision for impairment losses	<u>(1,393)</u>	<u>(3,820)</u>
Total	<u>3,982,562</u>	<u>18,713,438</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	30 June 2020	31 December 2019
Debt securities held under resale agreements	3,983,750	18,710,501
Add: interest receivable	205	6,757
Less: provision for impairment losses	<u>(1,393)</u>	<u>(3,820)</u>
Total	<u>3,982,562</u>	<u>18,713,438</u>

(c) Movements of provision for impairment losses

	2020	2019
As at 1 January	3,820	381
Net (release)/charge for the period/year	<u>(2,427)</u>	<u>3,439</u>
As at 30 June/31 December	<u>1,393</u>	<u>3,820</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2020	31 December 2019
Measured at amortised cost:		
Corporate loans and advances	386,332,458	373,987,498
Personal loans and advances		
– Residential mortgage	41,021,158	36,041,189
– Personal consumption loans	16,444,516	17,297,007
– Credit cards	5,318,867	3,568,235
– Personal business loans	694,675	587,963
– Others	17,770	17,870
Subtotal	63,496,986	57,512,264
Gross loans and advances to customers measured at amortised cost	449,829,444	431,499,762
Measured at fair value through other comprehensive income:		
– Corporate loans and advances	4,600,799	213,674
– Discounted bills	58,344,294	25,488,939
Gross loans and advances to customers measured at fair value through other comprehensive income	62,945,093	25,702,613
Gross loans and advances to customers	512,774,537	457,202,375
Add: interest receivable	5,586,336	2,052,316
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(16,594,446)	(12,879,170)
Net loans and advances to customers	501,766,427	446,375,521

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysed by nature (Continued)

As at 30 June 2020, the Group's provision amount for loans and advances to customers measured at fair value through other comprehensive income is RMB150.64 million (31 December 2019: RMB8.62 million), as detailed in Note 19 (f).

(b) Analysed by economic sector

	30 June 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	156,768,433	31%	76,146,513
Renting and business activities	69,555,986	14%	43,310,902
Real estate	62,220,656	12%	36,125,156
Manufacturing	33,670,793	7%	7,696,704
Construction	25,775,357	5%	18,062,981
Culture, sports and entertainment	11,185,992	2%	166,000
Transportation, storage and postal services	3,828,068	1%	619,749
Accommodation and catering	3,468,108	1%	3,231,562
Production and supply of electricity, heat, gas and water	3,069,645	1%	867,678
Mining	2,153,271	0%	67,597
Household Services and other Services	2,031,680	0%	349,880
Agriculture, forestry, animal husbandry and fishery	588,799	0%	284,511
Others	16,616,469	3%	8,966,569
Subtotal of corporate loans and advances	390,933,257	77%	195,895,802
Personal loans and advances	63,496,986	12%	46,037,773
Discounted bills	58,344,294	11%	58,344,294
Gross loans and advances to customers	512,774,537	100%	300,277,869

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector (Continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	174,938,570	38%	87,110,017
Renting and business activities	68,381,038	15%	44,202,032
Real estate	35,280,158	8%	30,499,262
Construction	27,611,545	6%	6,281,071
Manufacturing	26,512,208	6%	7,261,555
Culture, sports and entertainment	6,175,911	1%	204,000
Transportation, storage and postal services	4,114,725	1%	659,197
Production and supply of electricity, heat, gas and water	3,548,293	1%	879,727
Accommodation and catering	3,422,891	1%	3,215,561
Mining	2,488,580	0%	90,897
Household and other services	2,142,419	0%	441,619
Agriculture, forestry, animal husbandry and fishery	1,161,819	0%	276,521
Others	18,423,015	4%	9,775,731
Subtotal of corporate loans and advances	374,201,172	81%	190,897,190
Personal loans and advances	57,512,264	13%	39,990,283
Discounted bills	25,488,939	6%	25,488,939
Gross loans and advances to customers	457,202,375	100%	256,376,412

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	30 June 2020	31 December 2019
Unsecured loans	37,649,936	20,927,803
Guaranteed loans	174,846,732	179,898,160
Loans secured by tangible assets other than monetary assets	197,934,442	182,487,244
Loans secured by intangible assets or monetary assets	<u>102,343,427</u>	<u>73,889,168</u>
Gross loans and advances to customers	<u>512,774,537</u>	<u>457,202,375</u>
Add: interest receivable	5,586,336	2,052,316
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(16,594,446)</u>	<u>(12,879,170)</u>
Net loans and advances to customers	<u><u>501,766,427</u></u>	<u><u>446,375,521</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

	30 June 2020				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	344,879	170,065	46,539	12,068	573,551
Guaranteed loans	3,531,245	1,747,133	4,478,003	1,608,101	11,364,482
Loans secured by tangible assets other than monetary assets	1,679,137	1,682,998	1,750,936	729,803	5,842,874
Loans secured by intangible assets or monetary assets	–	236,360	9,808	70,000	316,168
Total	5,555,261	3,836,556	6,285,286	2,419,972	18,097,075
As a percentage of gross loans and advances to customers	1.08%	0.75%	1.23%	0.47%	3.53%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	31 December 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	491,238	63,456	28,481	11,727	594,902
Guaranteed loans	4,051,982	6,783,008	3,692,915	1,132,519	15,660,424
Loans secured by tangible assets other than monetary assets	1,269,402	2,974,279	2,176,877	842,169	7,262,727
Loans secured by intangible assets or monetary assets	793,103	331	9,478	70,000	872,912
Total	6,605,725	9,821,074	5,907,751	2,056,415	24,390,965
As a percentage of gross loans and advances to customers	1.44%	2.15%	1.29%	0.45%	5.33%

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses

- (i) As at 30 June 2020, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	30 June 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Gross loans and advances to customers	488,828,145	11,188,376	12,758,016	512,774,537
Add: interest receivable	5,586,336	-	-	5,586,336
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(8,427,474)</u>	<u>(2,707,969)</u>	<u>(5,459,003)</u>	<u>(16,594,446)</u>
Net loans and advances to customers	<u>485,987,007</u>	<u>8,480,407</u>	<u>7,299,013</u>	<u>501,766,427</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

- (ii) As at 31 December 2019, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	31 December 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Gross loans and advances to customers	431,583,015	7,080,721	18,538,639	457,202,375
Add: interest receivable	2,052,316	–	–	2,052,316
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(5,480,833)</u>	<u>(1,429,810)</u>	<u>(5,968,527)</u>	<u>(12,879,170)</u>
Net loans and advances to customers	<u>428,154,498</u>	<u>5,650,911</u>	<u>12,570,112</u>	<u>446,375,521</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses

As at 30 June 2020, the movements of provision for loans and advances to customers are as follows:

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

	Six months ended 30 June 2020			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	5,480,833	1,429,810	5,968,527	12,879,170
Transferred:				
– to ECL over the next 12 months	354,975	(109,589)	(245,386)	–
– to lifetime ECL- not credit- impaired loans	(43,174)	567,426	(524,252)	–
– to lifetime ECL- credit-impaired loans	(26,279)	(164,721)	191,000	–
Net charge for the period	2,661,119	985,043	328,671	3,974,833
Transfer out	–	–	(259,584)	(259,584)
Recoveries	–	–	27	27
As at 30 June	<u>8,427,474</u>	<u>2,707,969</u>	<u>5,459,003</u>	<u>16,594,446</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	Six months ended 30 June 2020			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	8,618	-	-	8,618
Net charge for the period	<u>142,022</u>	<u>-</u>	<u>-</u>	<u>142,022</u>
As at 30 June	<u><u>150,640</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>150,640</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

As at 31 December 2019, the movement of provision for loans and advances to customers are as follows:

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

	Year ended 31 December 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	3,640,867	1,200,134	5,517,585	10,358,586
Transferred:				
– to ECL over the next 12 months	7,289	(449)	(6,840)	–
– to lifetime ECL- not credit-impaired loans	(27,845)	27,986	(141)	–
– to lifetime ECL- credit-impaired loans	(70,228)	(158,886)	229,114	–
Net charge for the year	1,930,750	361,025	8,090,170	10,381,945
Transfer out	–	–	(8,203,540)	(8,203,540)
Write-offs	–	–	(15,046)	(15,046)
Recoveries	–	–	357,225	357,225
As at 31 December	<u>5,480,833</u>	<u>1,429,810</u>	<u>5,968,527</u>	<u>12,879,170</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	Year ended 31 December 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	1,629	–	–	1,629
Net charge for the year	<u>6,989</u>	<u>–</u>	<u>–</u>	<u>6,989</u>
As at 31 December	<u><u>8,618</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>8,618</u></u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	<i>Note</i>	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss	20(a)	160,602,564	156,691,876
Financial assets at fair value through other comprehensive income	20(b)	45,330,431	33,451,350
Financial assets measured at amortised cost	20(c)	<u>231,821,408</u>	<u>227,348,966</u>
Total		<u><u>437,754,403</u></u>	<u><u>417,492,192</u></u>

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

	30 June 2020	31 December 2019
Debt securities at fair value listed outside Hong Kong		
– Policy banks	905,788	383,136
– Banks and other financial institutions	1,692,591	1,686,272
– Corporate	<u>1,030,961</u>	<u>1,030,961</u>
Subtotal	3,629,340	3,100,369
Wealth management plan	115,704,504	116,098,273
Investment funds	40,593,720	37,493,234
Beneficial investment of trust	<u>675,000</u>	<u>–</u>
Total	<u><u>160,602,564</u></u>	<u><u>156,691,876</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

	<i>Note</i>	30 June 2020	31 December 2019
Debt securities at fair value listed outside Hong Kong			
– Government		21,967,194	9,889,376
– Policy banks		15,617,476	15,548,565
– Banks and other financial institutions		1,452,621	1,415,436
– Corporate		1,691,403	685,278
Subtotal		40,728,694	27,538,655
Wealth management plan		–	1,107,105
Equity investments			
– Unlisted	20(b)(i)	4,133,955	4,318,416
Subtotal		4,133,955	5,425,521
Add: interest receivable		467,782	487,174
Total		45,330,431	33,451,350

- (i) The Group chose to designate non-trading equity investments as at financial assets at fair value through other comprehensive income on the transition date. As at 30 June 2020, the amount for these non-trading equity investments was RMB4,134 million (31 December 2019: RMB4,318 million). As at 30 June 2020, non-trading equity investments of the Group were not disposed and no accumulated gain or loss was transferred from other comprehensive income to retained earnings.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

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

	Six months ended 30 June 2020			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	2,336	–	–	2,336
Net charge for the period	<u>20,488</u>	<u>–</u>	<u>–</u>	<u>20,488</u>
As at 30 June	<u><u>22,824</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>22,824</u></u>

	Year ended 31 December 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	5,453	–	–	5,453
Net release for the year	<u>(3,117)</u>	<u>–</u>	<u>–</u>	<u>(3,117)</u>
As at 31 December	<u><u>2,336</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>2,336</u></u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost

	30 June 2020	31 December 2019
Debt securities at fair value listed outside Hong Kong		
– Government	62,640,101	58,487,011
– Policy banks	75,087,826	72,871,086
– Banks and other financial institutions	200,000	–
– Corporate	832,186	3,342,022
Subtotal	138,760,113	134,700,119
Wealth management plan	14,381,246	14,771,585
Beneficial investment of trust	77,104,560	76,775,572
Subtotal	91,485,806	91,547,157
Add: interest receivable	3,745,243	3,126,235
Less: provision for impairment losses	(2,169,754)	(2,024,545)
Total	231,821,408	227,348,966

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

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

	Six months ended 30 June 2020			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	828,138	165,454	1,030,953	2,024,545
Transferred:				
– to lifetime ECL – credit-impaired investments	(3,876)	–	3,876	–
Net charge for the period	<u>37,042</u>	<u>1,926</u>	<u>106,241</u>	<u>145,209</u>
As at 30 June	<u>861,304</u>	<u>167,380</u>	<u>1,141,070</u>	<u>2,169,754</u>

	Year ended 31 December 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	1,322,900	785,637	289,376	2,397,913
Transferred:				
– to lifetime ECL – credit-impaired investments	(59,881)	(6,717)	66,598	–
Net (release)/charge for the year	<u>(434,881)</u>	<u>(613,466)</u>	<u>674,979</u>	<u>(373,368)</u>
As at 31 December	<u>828,138</u>	<u>165,454</u>	<u>1,030,953</u>	<u>2,024,545</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost						
As at 1 January 2019	3,916,517	894,515	2,271,661	803,316	102,329	7,988,338
Additions	128,419	160,144	349,466	203,666	2,282	843,977
CIP transfers	–	1,819	(1,819)	–	–	–
Disposals	–	–	–	(3,416)	(12,382)	(15,798)
As at 31 December 2019 and 1 January 2020	4,044,936	1,056,478	2,619,308	1,003,566	92,229	8,816,517
Additions	–	16,632	423,891	27,207	–	467,730
Disposals	(260,932)	–	–	(722)	–	(261,654)
As at 30 June 2020	3,784,004	1,073,110	3,043,199	1,030,051	92,229	9,022,593
Accumulated depreciation						
As at 1 January 2019	(1,478,451)	(561,555)	–	(594,269)	(93,638)	(2,727,913)
Additions	(191,108)	(116,577)	–	(90,234)	(3,570)	(401,489)
Disposals	–	–	–	3,241	11,922	15,163
As at 31 December 2019 and 1 January 2020	(1,669,559)	(678,132)	–	(681,262)	(85,286)	(3,114,239)
Additions	(96,254)	(51,981)	–	(56,308)	(865)	(205,408)
Disposals	131,984	–	–	700	–	132,684
As at 30 June 2020	(1,633,829)	(730,113)	–	(736,870)	(86,151)	(3,186,963)
Net book value						
As at 31 December 2019	2,375,377	378,346	2,619,308	322,304	6,943	5,702,278
As at 30 June 2020	2,150,175	342,997	3,043,199	293,181	6,078	5,835,630

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

	30 June 2020		31 December 2019	
	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	19,588,580	4,897,145	21,588,672	5,397,169
Supplementary retirement benefits	<u>101,004</u>	<u>25,251</u>	<u>103,566</u>	<u>25,891</u>
Subtotal:	<u>19,689,584</u>	<u>4,922,396</u>	<u>21,692,238</u>	<u>5,423,060</u>
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	893,528	223,382	(533,304)	(133,326)
Change in fair value of derivative financial instruments	(6,181,110)	(1,545,278)	(2,697,764)	(674,441)
Change in fair value of financial assets at fair value through profit or loss	<u>(3,209,204)</u>	<u>(802,300)</u>	<u>(1,942,868)</u>	<u>(485,717)</u>
Subtotal:	<u>(8,496,786)</u>	<u>(2,124,196)</u>	<u>(5,173,936)</u>	<u>(1,293,484)</u>
Net deferred income tax	<u>11,192,798</u>	<u>2,798,200</u>	<u>16,518,302</u>	<u>4,129,576</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement

	At 31 December 2019	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2020
Deferred income tax assets:				
Allowance for impairment losses	5,397,169	(500,024)	–	4,897,145
Supplementary retirement benefits	25,891	(640)	–	25,251
Subtotal	5,423,060	(500,664)	–	4,922,396
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	(133,326)	–	356,708	223,382
Change in fair value of derivative financial instruments	(674,441)	(870,837)	–	(1,545,278)
Change in fair value of financial assets at fair value through profit or loss	(485,717)	(316,583)	–	(802,300)
Subtotal	(1,293,484)	(1,187,420)	356,708	(2,124,196)
Net deferred income tax	4,129,576	(1,688,084)	356,708	2,798,200

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement (Continued)

	At 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2019
Deferred income tax assets:				
Allowance for impairment losses	3,093,912	2,303,257	–	5,397,169
Supplementary retirement benefits	24,622	(767)	2,036	25,891
Subtotal	<u>3,118,534</u>	<u>2,302,490</u>	<u>2,036</u>	<u>5,423,060</u>
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	(374,195)	–	240,869	(133,326)
Change in fair value of derivative financial instruments	(353,113)	(321,328)	–	(674,441)
Change in fair value of financial assets at fair value through profit or loss	(238,668)	(247,049)	–	(485,717)
Subtotal	<u>(965,976)</u>	<u>(568,377)</u>	<u>240,869</u>	<u>(1,293,484)</u>
Net deferred tax	<u>2,152,558</u>	<u>1,734,113</u>	<u>242,905</u>	<u>4,129,576</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS

	Note	30 June 2020	31 December 2019
Reposessed assets	23(a)	1,588,653	1,238,158
Continued involvement in assets	42	645,000	–
Right-of-use assets	23(b)	602,757	674,985
Prepaid income tax		592,301	–
Settlement and clearing accounts		310,874	1,737,026
Interest receivable	23(c)	257,454	320,574
Intangible assets	23(d)	188,164	192,307
Prepayments		69,974	68,956
Land use rights		64,750	65,770
Others	23(e)	<u>1,361,347</u>	<u>1,554,022</u>
Total		<u><u>5,681,274</u></u>	<u><u>5,851,798</u></u>

(a) Reposessed assets

	30 June 2020	31 December 2019
Land use rights and buildings	1,648,093	1,297,598
Less: impairment allowance	<u>(59,440)</u>	<u>(59,440)</u>
Total	<u><u>1,588,653</u></u>	<u><u>1,238,158</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(b) Right-of-use assets

	Leased properties and buildings
Cost	
As at 1 January 2019	647,837
Additions	<u>194,586</u>
As at 31 December 2019 and 1 January 2020	842,423
Additions	14,645
Disposals	<u>(2,196)</u>
As at 30 June 2020	<u>854,872</u>
Accumulated depreciation	
As at 1 January 2019	–
Additions	<u>(167,438)</u>
As at 31 December 2019 and 1 January 2020	(167,438)
Additions	(86,873)
Disposals	<u>2,196</u>
As at 30 June	<u>(252,115)</u>
Carrying amount:	
As at 31 December 2019	<u><u>674,985</u></u>
As at 30 June 2020	<u><u>602,757</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(c) Interest receivable

	30 June 2020	31 December 2019
Interest receivable arising from:		
– Loans and advances to customers	<u>257,454</u>	<u>320,574</u>

(d) Intangible assets

	30 June 2020	31 December 2019
Cost		
As at 1 January	317,615	220,785
Additions	<u>10,627</u>	<u>96,830</u>
As at 30 June/31 December	----- 328,242	----- 317,615
Accumulated amortisation		
As at 1 January	(125,308)	(102,567)
Additions	<u>(14,770)</u>	<u>(22,741)</u>
As at 30 June/31 December	----- (140,078)	----- (125,308)
Net value		
As at 1 January	<u>192,307</u>	<u>118,218</u>
As at 30 June/31 December	<u>188,164</u>	<u>192,307</u>

Intangible assets of the Group mainly represent computer software.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(e) Others

	30 June 2020	31 December 2019
Receivable due from disposal of non-performing assets (<i>Note (i)</i>)	653,754	653,754
Others	<u>1,025,384</u>	<u>1,217,590</u>
Subtotal	1,679,138	1,871,344
Less: impairment allowance	<u>(317,791)</u>	<u>(317,322)</u>
Total	<u><u>1,361,347</u></u>	<u><u>1,554,022</u></u>

Note:

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

24 BORROWINGS FROM CENTRAL BANK

	30 June 2020	31 December 2019
Borrowings (<i>Note (i)</i>)	6,719,000	6,700,000
Add: interest payable	<u>120,521</u>	<u>93,977</u>
Total	<u><u>6,839,521</u></u>	<u><u>6,793,977</u></u>

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
– Banks	31,975,774	23,498,716
– Other financial institutions	<u>69,238,883</u>	<u>72,955,513</u>
Subtotal	101,214,657	96,454,229
Add: interest payable	<u>716,020</u>	<u>383,103</u>
Total	<u><u>101,930,677</u></u>	<u><u>96,837,332</u></u>

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
– Banks	9,026,423	6,501,364
– Other financial institutions	<u>20,000</u>	<u>57,000</u>
Subtotal	9,046,423	6,558,364
Add: interest payable	<u>42,794</u>	<u>30,937</u>
Total	<u><u>9,089,217</u></u>	<u><u>6,589,301</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In mainland China		
– Banks	70,990,138	38,323,587
– Other financial institutions	<u>19,564,599</u>	<u>21,723,659</u>
Subtotal	90,554,737	60,047,246
Add: interest payable	<u>52,899</u>	<u>69,887</u>
Total	<u><u>90,607,636</u></u>	<u><u>60,117,133</u></u>

(b) Analysed by type of security held

	30 June 2020	31 December 2019
Debt securities sold under repurchase agreements	64,181,398	52,348,317
Bills sold under repurchase agreements	<u>26,373,339</u>	<u>7,698,929</u>
Subtotal	90,554,737	60,047,246
Add: interest payable	<u>52,899</u>	<u>69,887</u>
Total	<u><u>90,607,636</u></u>	<u><u>60,117,133</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

	30 June 2020	31 December 2019
Demand deposits		
– Corporate deposits	138,202,011	190,952,618
– Personal deposits	<u>23,542,780</u>	<u>37,732,968</u>
Subtotal	<u>161,744,791</u>	<u>228,685,586</u>
Time deposits		
– Corporate deposits	190,366,285	197,106,655
– Personal deposits	<u>258,043,770</u>	<u>174,367,690</u>
Subtotal	<u>448,410,055</u>	<u>371,474,345</u>
Pledged deposits		
– Acceptances	25,588,968	36,250,974
– Letters of credit	3,406,469	2,598,266
– Letters of guarantees	1,573,965	1,418,793
– Others	<u>395,848</u>	<u>399,388</u>
Subtotal	<u>30,965,250</u>	<u>40,667,421</u>
Inward and outward remittances	<u>586,676</u>	<u>600,839</u>
Total deposits from customers at amortised cost	641,706,772	641,428,191
Add: interest payable	<u>13,852,616</u>	<u>13,642,803</u>
Total	<u>655,559,388</u>	<u>655,070,994</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEBT SECURITIES ISSUED

	<i>Note</i>	30 June 2020	31 December 2019
Tier two capital fixed rate debts maturing in December 2025	29(a)	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	29(b)	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2021	29(c)	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	29(d)	12,000,000	12,000,000
Financial fixed rate bonds maturing in October 2021	29(e)	8,000,000	8,000,000
Financial fixed rate bonds maturing in November 2021	29(f)	6,900,000	6,900,000
Certificates of interbank deposit	29(g)	28,637,326	35,728,767
Subtotal		73,537,326	80,628,767
Add: interest payable		1,323,656	364,287
Total		74,860,982	80,993,054

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEBT SECURITIES ISSUED (CONTINUED)

Notes:

- (a) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) Tier two capital fixed rate debts of RMB6.0 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (d) Financial fixed rate bonds of RMB12.0 billion with a term of three years were issued on 15 August 2018. The coupon rate is 4.35% per annum.
- (e) Financial fixed rate bonds of RMB8.0 billion with a term of three years were issued on 25 October 2018. The coupon rate is 4.10% per annum.
- (f) Financial fixed rate bonds of RMB6.9 billion with a term of three years were issued on 26 November 2018. The coupon rate is 3.98% per annum.
- (g) As at 30 June 2020, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB28,478 million (31 December 2019: RMB35,111 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES

	<i>Note</i>	30 June 2020	31 December 2019
Payment and collection clearance accounts		7,905,240	3,780,359
Expected credit loss of credit commitment	30(a)	876,730	784,340
Asset backed security payable		670,011	–
Continuing involvement in liability	42	645,000	–
Lease liabilities	30(b)	545,658	606,384
Taxes payable	30(c)	517,246	542,518
Accrued staff cost	30(d)	379,674	298,435
Deferred income		254,171	103,220
Dividend payable		108,291	341,657
Dormant accounts		56,703	46,829
Others		613,664	632,451
		<u>12,572,388</u>	<u>7,136,193</u>
Total		<u>12,572,388</u>	<u>7,136,193</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(a) Expected credit loss of credit commitment

	Six months ended 30 June 2020			Total
	ECL over the next 12 months	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January	657,853	34,143	92,344	784,340
Transferred:				
– to ECL over the next 12 months	16,426	(16,162)	(264)	–
– to lifetime ECL-not credit-impaired	(2)	3	(1)	–
– to lifetime ECL-credit-impaired	(1,885)	(63)	1,948	–
Net charge/(release) for the period	<u>82,058</u>	<u>(17,296)</u>	<u>27,628</u>	<u>92,390</u>
As at 30 June	<u>754,450</u>	<u>625</u>	<u>121,655</u>	<u>876,730</u>

	Year ended 31 December 2019			Total
	ECL over the next 2 months	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January	551,708	45,849	113,397	710,954
Transferred:				
– to ECL over the next 12 months	317	(22)	(295)	–
– to lifetime ECL- credit-impaired	(1)	(134)	135	–
Net charge/(release) for the year	<u>105,829</u>	<u>(11,550)</u>	<u>(20,893)</u>	<u>73,386</u>
As at 31 December	<u>657,853</u>	<u>34,143</u>	<u>92,344</u>	<u>784,340</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

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

	30 June 2020	31 December 2019
Within one year	132,991	147,091
Between one year and two years	115,958	125,063
Between two years and three years	97,136	103,063
Between three years and five years	137,934	153,576
More than five years	138,531	166,214
Contractual undiscounted cash flows of lease liabilities	<u>622,550</u>	<u>695,007</u>
Ending balance of lease liabilities	<u>545,658</u>	<u>606,384</u>

(c) Taxes payable

	30 June 2020	31 December 2019
Value-added tax and surcharges payable	459,236	442,364
Others	<u>58,010</u>	<u>100,154</u>
Total	<u>517,246</u>	<u>542,518</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost

	<i>Note</i>	30 June 2020	31 December 2019
Salary, bonuses and allowances payable		191,939	70,065
Pension and annuity payable	30(d)(i)	39,046	77,111
Supplementary retirement benefits payable	30(d)(ii)	101,004	103,566
Housing allowances payable		30,097	30,092
Other social insurance payable		2,322	1,616
Others		15,266	15,985
		<u>379,674</u>	<u>298,435</u>
Total		<u>379,674</u>	<u>298,435</u>

(i) Pension and annuity

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(ii) *Supplementary retirement benefits*

Early retirement plan

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

Supplementary retirement plan

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

31 SHARE CAPITAL

Issued share capital

	30 June 2020	31 December 2019
Number of shares, issued and fully paid at par value (in thousands)	8,796,680	8,796,680

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 RESERVES

(a) Capital reserve

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

(b) Surplus reserve

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

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

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

(c) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 RESERVES (CONTINUED)

(d) Fair value reserve

	2020	2019
As at 1 January	399,979	1,122,587
Changes in fair value recognised in fair value reserve	(1,262,583)	48,820
Transfer to profit or loss upon disposal	(164,249)	(1,012,297)
Less: income tax	356,708	240,869
Subtotal	(1,070,124)	(722,608)
As at 30 June/31 December	(670,145)	399,979

(e) Provision reserve

	2020	2019
As at 1 January	8,215	5,311
Changes in fair value recognised in provision reserve	162,510	3,872
Less: income tax	(40,628)	(968)
As at 30 June/31 December	130,097	8,215

(f) Deficit on remeasurement of net defined benefit liability

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

33 PROFIT DISTRIBUTION

- (i) In accordance with the resolution of the Bank's 2019 Annual General Meeting held on 5 June 2020, the shareholders approved the following profit distribution plan for the year ended 31 December 2019 is as follows:
- Appropriate RMB544.13 million to the statutory surplus reserve fund;
 - Appropriate RMB277.78 million to the general reserve.
- (ii) In accordance with the resolution of the Bank's 2018 Annual General Meeting held on 31 May 2019, the shareholders approved the following profit distribution plan for the year ended 31 December 2018 is as follows:
- Appropriate RMB512.64 million to the discretionary surplus reserve fund;
 - Appropriate RMB825.55 million to the general reserve;
 - Declare cash dividends of RMB1.20 per ten shares before tax and in aggregation of RMB695.60 million to all shareholders.

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	30 June 2020	31 December 2019
Cash on hand	988,894	877,084
Deposits with central bank other than restricted deposits	12,197,560	28,421,050
Deposits with banks and other financial institutions with original maturity of three months or less	10,230,307	19,795,064
Placements with banks and other financial institutions with original maturity of three months or less	5,900,000	8,200,000
Financial assets held under resale agreements with original maturity of three months or less	3,983,750	18,026,510
Total	33,300,511	75,319,708

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

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

Share percentage in the Bank:

	30 June 2020	31 December 2019
Evergrande Group (Nanchang) Co., Ltd.	36.40%	36.40%
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	5.45%	5.45%
Liaoning Huibao International Investment Group Co., Ltd.	4.55%	4.55%
Xinhu Zhongbao Co., Ltd.	3.41%	3.41%
Founder Securities Co., Ltd.	3.41%	3.41%
Liaoning Huafeng Investment Co., Ltd.	1.14%	1.14%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Main condition of major shareholders:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Registered capital of major shareholders:

Company Name	Currency	30 June 2020	31 December 2019
Evergrande Group (Nanchang) Co., Ltd.	RMB	99,984,980	99,984,980
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	RMB	10,000,000	10,000,000
Liaoning International Investment Group Co., Ltd.	RMB	80,000	80,000
Xinhu Zhongbao Co., Ltd.	RMB	8,599,000	8,599,000
Founder Securities Co., Ltd.	RMB	8,232,000	8,232,000
Liaoning Huafeng Investment Co., Ltd.	RMB	50,000	50,000

(ii) Subsidiaries of the Bank

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

(iii) Other related parties

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances

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

(i) Transactions between the Bank and major shareholders

(1) Deposits from customers

	30 June 2020	31 December 2019
Founder Securities Co., Ltd.	281,845	281,851
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	134,060	26,437
Evergrande Group (Nanchang) Co., Ltd.	2,110	22,451
Liaoning Huibao International Investment Group Co., Ltd.	1,288	1,310
Xinhu Zhongbao Co., Ltd.	17	17
Liaoning Huafeng Investment Co., Ltd.	12	12
Total	<u>419,332</u>	<u>332,078</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

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

(2) Guarantees received

	30 June 2020	31 December 2019
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	1,121,000	889,000
Liaoning Huibao International Investment Group Co., Ltd.	411,663	411,663
Xinhu Zhongbao Co., Ltd.	127,000	263,160
Total	<u>1,659,663</u>	<u>1,563,823</u>

(3) Interest expense

	Six months ended 30 June	
	2020	2019
Founder Securities Co., Ltd.	3,435	–
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	307	153
Evergrande Group (Nanchang) Co., Ltd.	20	3,626
Liaoning Huibao International Investment Group Co., Ltd.	3	3
Total	<u>3,765</u>	<u>3,782</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(ii) Transactions between the Bank and subsidiaries

	30 June 2020	31 December 2019
Balances at the end of the period/year:		
Deposits from banks and other financial institutions	508,889	742,947
Deposits with banks and other financial institutions	2,670,000	2,270,000
	Six months ended 30 June	
	2020	2019
Transactions during the period:		
Interest income	63,395	1,664
Interest expense	4,386	22,555

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) Transactions between the Bank and other related parties

	30 June 2020	31 December 2019
Balances at the end of the period/year:		
Loans and advances to customers	10,116,866	8,779,104
Financial assets measured at amortised cost	13,895,275	13,781,046
Deposits from customers	13,289,362	32,974,483
Bank acceptances	531,609	331,609
Guarantees received	7,987,883	18,604,400
	Six months ended 30 June	
	2020	2019
Transactions during the period:		
Interest income	879,507	836,689
Interest expense	61,198	76,652
Fee and commission income	266	–

(c) Key management personnel

(i) Key management personnel remuneration

	Six months ended 30 June	
	2020	2019
Salaries and other emoluments	10,437	10,484
Discretionary bonuses	10,230	9,299
Contributions to pension schemes	989	900
Total	<u>21,656</u>	<u>20,683</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

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

At 30 June 2020 and 31 December 2019, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

(iii) Transactions between the Bank and key management personnel

	30 June 2020	31 December 2019
Balances at the end of the period/year:		
Deposits from customers	38,082	17,895
Loans and advances to customers	1,204	660

	Six months ended 30 June 2020	2019
Transactions during the period:		
Interest income	36	3
Interest expense	174	184

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT

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

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

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

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

(a) Credit risk

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

Credit business

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

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

Treasury Business

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

(i) *Maximum credit risk exposure*

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers*

Loans and advances to customers were analysed as follows as at 30 June 2020:

	30 June 2020	31 December 2019
Gross balance of loans and advances to customers		
– ECL over the next 12 months	488,828,145	431,583,015
– Lifetime ECL – not credit-impaired loans	11,188,376	7,080,721
– Lifetime ECL – credit-impaired loans	12,758,016	18,538,639
	<u>512,774,537</u>	<u>457,202,375</u>
Add: Interest receivable		
– ECL over the next 12 months	5,586,336	2,052,316
	<u>5,586,336</u>	<u>2,052,316</u>
Less: allowance for impairment losses		
– ECL over the next 12 months	(8,427,474)	(5,480,833)
– Lifetime ECL – not credit-impaired loans	(2,707,969)	(1,429,810)
– Lifetime ECL – credit-impaired loans	(5,459,003)	(5,968,527)
	<u>(16,594,446)</u>	<u>(12,879,170)</u>
Net balance		
– ECL over the next 12 months	485,987,007	428,154,498
– Lifetime ECL – not credit-impaired loans	8,480,407	5,650,911
– Lifetime ECL – credit-impaired loans	7,299,013	12,570,112
	<u>501,766,427</u>	<u>446,375,521</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(1) ECL over the next 12 months loans

	30 June 2020	31 December 2019
Corporate loans and advances	426,214,408	374,698,036
Personal loans and advances	<u>62,613,737</u>	<u>56,884,979</u>
Total gross balance	<u><u>488,828,145</u></u>	<u><u>431,583,015</u></u>

(2) Lifetime ECL – not credit-impaired loans

	30 June 2020			Total
	Not overdue	Less than 1 month (inclusive)	1 to 3 months (inclusive)	
Corporate loans and advances	8,716,047	–	2,284,548	11,000,595
Personal loans and advances	<u>–</u>	<u>46,940</u>	<u>140,841</u>	<u>187,781</u>
Total gross balance	<u><u>8,716,047</u></u>	<u><u>46,940</u></u>	<u><u>2,425,389</u></u>	<u><u>11,188,376</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

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

	31 December 2019			
	Not overdue	Less than		Total
		1 month (inclusive)	1 to 3 months (inclusive)	
Corporate loans and advances	2,084,856	580,132	4,296,895	6,961,883
Personal loans and advances	68	23,831	94,939	118,838
Total gross balance	<u>2,084,924</u>	<u>603,963</u>	<u>4,391,834</u>	<u>7,080,721</u>

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

	30 June 2020	31 December 2019
Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired	<u>10,654,120</u>	<u>7,796,112</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(3) Lifetime ECL – credit-impaired loans

	30 June 2020	31 December 2019
Corporate loans and advances	12,062,548	18,030,192
Personal loans and advances	<u>695,468</u>	<u>508,447</u>
Total gross balance	<u><u>12,758,016</u></u>	<u><u>18,538,639</u></u>
% of total loans and advances	<u><u>2.49%</u></u>	<u><u>4.05%</u></u>
Allowance for impairment losses		
– Corporate loans and advances	5,017,602	5,668,384
– Personal loans and advances	<u>441,401</u>	<u>300,143</u>
Total	<u><u>5,459,003</u></u>	<u><u>5,968,527</u></u>
Fair value of collateral held against credit-impaired loans and advances	<u><u>13,150,500</u></u>	<u><u>21,052,014</u></u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iii) Amounts due from banks and other financial institutions

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

	30 June 2020	31 December 2019
Carrying amount		
Neither overdue nor impaired		
– grade A to AAA	16,062,581	38,135,771
– grade B to BBB	43,652	36,630
– grade C to CCC	1,146,777	1,146,777
– unrated (<i>Note (i)</i>)	<u>4,007,824</u>	<u>8,790,163</u>
Subtotal	21,260,834	48,109,341
Add: interest receivable	23,139	39,202
Less: provision for impairment loss	<u>(129,177)</u>	<u>(131,938)</u>
Total	<u><u>21,154,796</u></u>	<u><u>48,016,605</u></u>

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments

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

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

	30 June 2020	31 December 2019
Neither overdue nor impaired		
– Government	84,607,295	68,376,387
– Policy banks	91,611,090	88,802,787
– Banks and other financial institutions	3,345,212	3,101,708
– Corporate	3,554,550	5,058,261
Subtotal	<u>183,118,147</u>	<u>165,339,143</u>
Impairment loss	<u>(37,162)</u>	<u>(11,532)</u>
Total	<u><u>183,080,985</u></u>	<u><u>165,327,611</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(v) *Financial assets measured at amortised cost*

	30 June 2020	31 December 2019
Gross balance of financial assets measured at amortised cost		
– ECL over the next 12 months	223,871,683	219,948,608
– Lifetime ECL – not credit-impaired investments	1,200,000	1,200,000
– Lifetime ECL – credit-impaired investments	5,174,236	5,098,668
	<u>230,245,919</u>	<u>226,247,276</u>
Add: Interest receivable		
– ECL over the next 12 months	3,745,243	3,126,235
	<u>3,745,243</u>	<u>3,126,235</u>
Less: allowance for impairment losses		
– ECL over the next 12 months	(861,304)	(828,138)
– Lifetime ECL – not credit-impaired investments	(167,380)	(165,454)
– Lifetime ECL – credit-impaired investments	(1,141,070)	(1,030,953)
	<u>(2,169,754)</u>	<u>(2,024,545)</u>
Net balance		
– ECL over the next 12 months	226,755,622	222,246,705
– Lifetime ECL – not credit-impaired investments	1,032,620	1,034,546
– Lifetime ECL – credit-impaired investments	4,033,166	4,067,715
	<u>231,821,408</u>	<u>227,348,966</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk

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

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

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

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

(i) Interest rate risk

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

(1) Repricing risk

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

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

	30 June 2020					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	76,386,391	1,017,788	75,368,603	-	-	-
Deposits with banks and other financial institutions	11,272,658	22,276	11,250,382	-	-	-
Placements with banks and other financial institutions	5,899,576	658	5,898,918	-	-	-
Financial assets held under resale agreements	3,982,562	205	3,982,357	-	-	-
Loans and advances to customers <i>(Note (i))</i>	501,766,427	5,586,336	76,399,121	225,601,548	139,998,367	54,181,055
Financial investments <i>(Note (ii))</i>	437,754,403	9,563,781	99,896,098	98,506,053	120,414,129	109,374,342
Others	21,327,267	14,315,104	1,000,953	5,186,474	821,654	3,082
Total assets	1,058,389,284	30,506,148	273,796,432	329,294,075	261,234,150	163,558,479

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	30 June 2020					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from central bank	(6,839,521)	(120,521)	(4,200,000)	(2,519,000)	-	-
Deposits from banks and other financial institutions	(101,930,677)	(716,020)	(69,099,319)	(32,115,338)	-	-
Placements from banks and other financial institutions	(9,089,217)	(42,794)	(7,512,088)	(1,534,335)	-	-
Financial assets sold under repurchase agreements	(90,607,636)	(52,899)	(87,292,657)	(3,262,080)	-	-
Deposits from customers	(655,559,388)	(13,852,616)	(208,899,015)	(238,151,008)	(192,456,740)	(2,200,009)
Debt securities issued	(74,860,982)	(1,323,656)	(18,392,497)	(10,244,829)	(28,900,000)	(16,000,000)
Others	<u>(38,482,381)</u>	<u>(12,572,388)</u>	<u>(4,097,706)</u>	<u>(21,032,009)</u>	<u>(777,196)</u>	<u>(3,082)</u>
Total liabilities	<u>(977,369,802)</u>	<u>(28,680,894)</u>	<u>(399,493,282)</u>	<u>(308,858,599)</u>	<u>(222,133,936)</u>	<u>(18,203,091)</u>
Asset-liability gap	<u>81,019,482</u>	<u>1,825,254</u>	<u>(125,696,850)</u>	<u>20,435,476</u>	<u>39,100,214</u>	<u>145,355,388</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2019					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	90,533,151	989,841	89,543,310	–	–	–
Deposits with banks and other financial institutions	21,104,213	31,794	20,531,178	541,241	–	–
Placements with banks and other financial institutions	8,198,954	651	8,198,303	–	–	–
Financial assets held under resale agreements	18,713,438	6,757	18,252,088	454,593	–	–
Loans and advances to customers (Note (i))	446,375,521	2,052,316	252,220,027	92,996,347	62,938,682	36,168,149
Financial investments (Note (ii))	417,492,192	9,137,581	120,529,389	73,691,883	126,872,140	87,261,199
Others	19,063,327	15,683,654	533,529	2,467,237	377,751	1,156
Total assets	1,021,480,796	27,902,594	509,807,824	170,151,301	190,188,573	123,430,504

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2019					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from central bank	(6,793,977)	(93,977)	–	(6,700,000)	–	–
Deposits from banks and other financial institutions	(96,837,332)	(383,103)	(70,547,561)	(25,906,668)	–	–
Placements from banks and other financial institutions	(6,589,301)	(30,937)	(5,270,007)	(1,288,357)	–	–
Financial assets sold under repurchase agreements	(60,117,133)	(69,887)	(59,845,204)	(202,042)	–	–
Deposits from customers	(655,070,994)	(13,642,803)	(304,847,230)	(79,442,070)	(257,138,882)	(9)
Debt securities issued	(80,993,054)	(364,287)	(25,838,763)	(9,890,004)	(28,900,000)	(16,000,000)
Others	<u>(35,957,020)</u>	<u>(8,741,671)</u>	<u>(3,702,662)</u>	<u>(23,174,279)</u>	<u>(337,252)</u>	<u>(1,156)</u>
Total liabilities	<u>(942,358,811)</u>	<u>(23,326,665)</u>	<u>(470,051,427)</u>	<u>(146,603,420)</u>	<u>(286,376,134)</u>	<u>(16,001,165)</u>
Asset-liability gap	<u>79,121,985</u>	<u>4,575,929</u>	<u>39,756,397</u>	<u>23,547,881</u>	<u>(96,187,561)</u>	<u>107,429,339</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 30 June 2020 included overdue amounts (net of provision for impairment losses) of RMB12,484 million (31 December 2019: RMB17,902 million).
- (ii) Financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.

(2) Interest rate sensitivity analysis

	30 June 2020 Increase/ (decrease)	31 December 2019 Increase/ (decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	(783,005)	289,700
Down 100 bps parallel shift in yield curves	783,005	(289,700)
	30 June 2020 Increase/ (decrease)	31 December 2019 Increase/ (decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	(2,354,696)	(897,845)
Down 100 bps parallel shift in yield curves	2,500,587	1,004,166

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis (Continued)

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk

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

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

	30 June 2020			
	RMB	USD <i>(RMB Equivalent)</i>	Others <i>(RMB Equivalent)</i>	Total <i>(RMB Equivalent)</i>
Assets				
Cash and deposits with central bank	75,829,618	513,447	43,326	76,386,391
Deposits with banks and other financial institutions	4,331,934	1,406,215	5,534,509	11,272,658
Placements with banks and other financial institutions	5,899,576	–	–	5,899,576
Financial assets held under resale agreements	3,982,562	–	–	3,982,562
Loans and advances to customers	498,780,628	2,103,928	881,871	501,766,427
Financial investments <i>(Note (i))</i>	437,754,403	–	–	437,754,403
Others	17,204,992	3,334,600	787,675	21,327,267
Total assets	1,043,783,713	7,358,190	7,247,381	1,058,389,284

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Borrowings from central bank	(6,839,521)	–	–	(6,839,521)
Deposits from banks and other financial institutions	(96,969,346)	(3,362,763)	(1,598,568)	(101,930,677)
Placements from banks and other financial institutions	(6,056,334)	(2,999,979)	(32,904)	(9,089,217)
Financial assets sold under repurchase agreements	(90,607,636)	–	–	(90,607,636)
Deposits from customers	(646,060,853)	(8,751,042)	(747,493)	(655,559,388)
Debt securities issued	(74,860,982)	–	–	(74,860,982)
Others	(36,793,170)	(198,577)	(1,490,634)	(38,482,381)
Total liabilities	<u>(958,187,842)</u>	<u>(15,312,361)</u>	<u>(3,869,599)</u>	<u>(977,369,802)</u>
Net position	<u>85,595,871</u>	<u>(7,954,171)</u>	<u>3,377,782</u>	<u>81,019,482</u>
Off-balance sheet credit commitments	<u>160,666,091</u>	<u>5,493,056</u>	<u>950,341</u>	<u>167,109,488</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2019			
	RMB	USD <i>(RMB Equivalent)</i>	Others <i>(RMB Equivalent)</i>	Total <i>(RMB Equivalent)</i>
Assets				
Cash and deposits with central bank	90,151,256	339,560	42,335	90,533,151
Deposits with banks and other financial institutions	12,880,457	2,204,316	6,019,440	21,104,213
Placements with banks and other financial institutions	8,198,954	–	–	8,198,954
Financial assets held under resale agreements	18,713,438	–	–	18,713,438
Loans and advances to customers	444,307,517	1,576,314	491,690	446,375,521
Financial investments <i>(Note (i))</i>	417,492,192	–	–	417,492,192
Others	16,744,132	1,612,981	706,214	19,063,327
Total assets	<u>1,008,487,946</u>	<u>5,733,171</u>	<u>7,259,679</u>	<u>1,021,480,796</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Borrowings from central bank	(6,793,977)	–	–	(6,793,977)
Deposits from banks and other financial institutions	(93,767,757)	(3,069,528)	(47)	(96,837,332)
Placements from banks and other financial institutions	(4,117,937)	(2,471,364)	–	(6,589,301)
Financial assets sold under repurchase agreements	(60,117,133)	–	–	(60,117,133)
Deposits from customers	(649,298,276)	(5,005,106)	(767,612)	(655,070,994)
Debt securities issued	(80,993,054)	–	–	(80,993,054)
Others	<u>(30,153,614)</u>	<u>(135,009)</u>	<u>(5,668,397)</u>	<u>(35,957,020)</u>
Total liabilities	<u>(925,241,748)</u>	<u>(10,681,007)</u>	<u>(6,436,056)</u>	<u>(942,358,811)</u>
Net position	<u>83,246,198</u>	<u>(4,947,836)</u>	<u>823,623</u>	<u>79,121,985</u>
Off-balance sheet credit commitments	<u>169,370,110</u>	<u>4,283,805</u>	<u>1,267,943</u>	<u>174,921,858</u>

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2020	31 December 2019
	Increase/ (decrease)	Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps parallel shift in yield curves	(4,848)	(4,434)
Down 100 bps parallel shift in yield curves	4,848	4,434

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

(i) Maturity analysis

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

	30 June 2020							Total
	Indefinite (Note (iii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with central bank	63,171,043	13,215,348	-	-	-	-	-	76,386,391
Deposits with banks and other financial institutions	1,024,435	10,248,223	-	-	-	-	-	11,272,658
Placements with banks and other financial institutions	-	-	5,899,576	-	-	-	-	5,899,576
Financial assets held under resale agreements	-	-	3,982,562	-	-	-	-	3,982,562
Loans and advances to customers	9,408,087	8,137,431	15,462,127	49,204,178	225,355,766	140,017,784	54,181,054	501,766,427
Financial investments (Note (i))	9,484,536	-	9,875,630	46,206,761	98,765,302	122,982,768	150,439,406	437,754,403
Others	11,793,126	849,755	1,228,804	83,023	6,547,823	821,654	3,082	21,327,267
Total assets	94,881,227	32,450,757	36,448,699	95,493,962	330,668,891	263,822,206	204,623,542	1,058,389,284

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	30 June 2020							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities								
Borrowings from central bank	-	-	-	(4,275,337)	(2,564,184)	-	-	(6,839,521)
Deposits from banks and other financial institutions	-	(14,981,695)	(27,076,908)	(27,456,751)	(32,415,323)	-	-	(101,930,677)
Placements from banks and other financial institutions	-	-	(5,961,723)	(1,578,834)	(1,548,660)	-	-	(9,089,217)
Financial assets sold under repurchase agreements	-	-	(62,186,886)	(25,156,764)	(3,263,986)	-	-	(90,607,636)
Deposits from customers	-	(168,434,328)	(16,705,397)	(24,874,325)	(241,933,984)	(201,072,559)	(2,538,795)	(655,559,388)
Debt securities issued	-	-	(14,094,516)	(4,815,000)	(11,051,466)	(28,900,000)	(16,000,000)	(74,860,982)
Others	-	(812,769)	(11,657,171)	(3,513,642)	(21,192,771)	(1,086,573)	(219,455)	(38,482,381)
Total liabilities	-	(184,228,792)	(137,682,601)	(91,670,653)	(313,970,374)	(231,059,132)	(18,758,250)	(977,369,802)
Long/(short) position	94,881,227	(151,778,035)	(101,233,902)	3,823,309	16,698,517	32,763,074	185,865,292	81,019,482
Notional amount of derivatives	-	-	24,456,820	18,855,591	87,453,907	51,612,037	100,000	182,478,355

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2019							Total
	Indefinite <i>(Note(ii))</i>	Repayable on demand <i>(Note(iii))</i>	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with central bank	61,122,260	29,330,142	-	-	80,749	-	-	90,533,151
Deposits with banks and other financial institutions	-	17,078,030	3,251,044	233,081	542,058	-	-	21,104,213
Placements with banks and other financial institutions	-	-	8,198,954	-	-	-	-	8,198,954
Financial assets held under resale agreements	-	-	18,023,696	231,212	458,530	-	-	18,713,438
Loans and advances to customers	15,874,038	5,458,125	19,554,865	48,622,443	204,564,458	110,767,157	41,534,435	446,375,521
Financial investments <i>(Note (i))</i>	9,693,672	-	6,199,263	67,917,343	71,616,296	133,092,468	128,973,150	417,492,192
Others	<u>12,072,030</u>	<u>320,574</u>	<u>1,838,007</u>	<u>432,548</u>	<u>4,021,261</u>	<u>377,751</u>	<u>1,156</u>	<u>19,063,327</u>
Total assets	<u>98,762,000</u>	<u>52,186,871</u>	<u>57,065,829</u>	<u>117,436,627</u>	<u>281,283,352</u>	<u>244,237,376</u>	<u>170,508,741</u>	<u>1,021,480,796</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2019							Total
	Indefinite (Note(ii))	Repayable on demand (Note(ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities								
Borrowings from central bank	-	-	-	-	(6,793,977)	-	-	(6,793,977)
Deposits from banks and other financial institutions	-	(15,713,193)	(33,968,940)	(21,152,695)	(26,002,504)	-	-	(96,837,332)
Placements from banks and other financial institutions	-	-	(3,828,226)	(1,462,528)	(1,298,547)	-	-	(6,589,301)
Financial assets sold under repurchase agreements	-	-	(43,230,494)	(16,684,362)	(202,277)	-	-	(60,117,133)
Deposits from customers	-	(240,515,792)	(27,186,269)	(38,589,573)	(81,390,107)	(267,389,244)	(9)	(655,070,994)
Debt securities issued	-	-	(12,747,177)	(13,095,563)	(10,250,314)	(28,900,000)	(16,000,000)	(80,993,054)
Others	-	(2,312,286)	(4,119,172)	(5,225,519)	(23,385,205)	(672,306)	(242,532)	(35,957,020)
Total liabilities	-	(258,541,271)	(125,080,278)	(96,210,240)	(149,322,931)	(296,961,550)	(16,242,541)	(942,358,811)
Long/(short) position	98,762,000	(206,354,400)	(68,014,449)	21,226,387	131,960,421	(52,724,174)	154,266,200	79,121,985
Notional amount of derivatives	-	-	26,436,988	27,349,043	77,553,474	52,898,354	100,000	184,337,859

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

Notes:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

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

	30 June 2020					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(6,935,697)	-	(4,341,295)	(2,594,402)	-	-
Deposits from banks and other financial institutions	(102,571,470)	(42,087,024)	(27,617,199)	(32,867,247)	-	-
Placements from banks and other financial institutions	(9,131,953)	(5,965,070)	(1,584,453)	(1,582,430)	-	-
Financial assets sold under repurchase agreements	(90,733,495)	(62,291,909)	(25,167,564)	(3,274,022)	-	-
Deposits from customers	(663,236,571)	(185,198,845)	(25,433,074)	(244,032,131)	(205,845,712)	(2,726,809)
Debt securities issued	(80,295,790)	(14,160,272)	(4,943,388)	(11,949,130)	(31,904,000)	(17,339,000)
Other financial liabilities	(37,728,220)	(12,461,559)	(3,507,067)	(21,169,030)	(351,028)	(239,536)
Total non-derivative financial liabilities	<u>(990,633,196)</u>	<u>(322,164,679)</u>	<u>(92,594,040)</u>	<u>(317,468,392)</u>	<u>(238,100,740)</u>	<u>(20,305,345)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

	31 December 2019					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(6,925,399)	-	-	(6,925,399)	-	-
Deposits from banks and other financial institutions	(97,560,848)	(49,690,017)	(21,284,663)	(26,586,168)	-	-
Placements from banks and other financial institutions	(6,633,776)	(3,832,597)	(1,468,270)	(1,332,909)	-	-
Financial assets sold under repurchase agreements	(60,140,756)	(43,251,729)	(16,686,181)	(202,846)	-	-
Deposits from customers	(681,658,308)	(267,699,410)	(40,431,855)	(82,833,766)	(290,693,268)	(9)
Debt securities issued	(87,953,007)	(12,876,950)	(13,505,035)	(12,328,022)	(31,904,000)	(17,339,000)
Other financial liabilities	<u>(35,351,170)</u>	<u>(6,347,741)</u>	<u>(5,144,948)</u>	<u>(23,206,999)</u>	<u>(381,702)</u>	<u>(269,780)</u>
Total non-derivative financial liabilities	<u>(976,223,264)</u>	<u>(383,698,444)</u>	<u>(98,520,952)</u>	<u>(153,416,109)</u>	<u>(322,978,970)</u>	<u>(17,608,789)</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives

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

- Interest rate swaps

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

- Currency swaps
- Foreign exchange forwards
- Precious metal derivatives

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

	30 June 2020					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	44,397	-	16	(82)	44,463	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
– cash outflow	(83,328,968)	(22,828,008)	(11,860,044)	(48,624,799)	(16,117)	-
– cash inflow	83,362,261	22,850,634	11,875,595	48,619,918	16,114	-
Precious metal derivatives						
– cash outflow	(25,820,622)	(3,873,480)	(342,540)	(21,604,602)	-	-
– cash inflow	31,929,553	4,740,000	398,820	26,790,733	-	-

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

	31 December 2019					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	40,362	(88)	(5)	(49)	40,504	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(71,440,771)	(21,176,710)	(17,439,709)	(32,818,233)	(6,119)	-
- cash inflow	69,799,650	21,154,547	16,683,874	31,955,113	6,116	-
Precious metal derivatives						
- cash outflow	(27,448,601)	(382,379)	(3,348,840)	(23,717,382)	-	-
- cash inflow	31,581,398	190,421	3,939,210	27,451,767	-	-

(d) Operational risk

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 30 June 2020 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	Note	30 June 2020	31 December 2019
Total core tier-one capital			
– Share capital		8,796,680	8,796,680
– Qualifying portion of capital reserve		26,931,360	26,931,360
– Surplus reserve		7,166,927	7,166,927
– General reserve		13,676,444	13,398,535
– Fair value reserve		(670,145)	399,979
– Provision reserve		130,097	8,215
– Retained earnings		24,425,306	21,873,822
– Qualifying portions of non-controlling interests		105,020	83,341
– Others		(19,984)	(19,986)
Core tier-one capital		80,541,705	78,638,873
Core tier-one capital deductions		(188,164)	(192,308)
Net core tier-one capital		80,353,541	78,446,565
Other tier-one capital		–	–
Net tier-one capital		80,353,541	78,446,565

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

	<i>Note</i>	30 June 2020	31 December 2019
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		16,000,000	16,000,000
– Surplus provision for loan impairment		3,836,430	4,874,532
Net tier-two capital		<u>19,836,430</u>	<u>20,874,532</u>
Net capital base		<u>100,189,971</u>	<u>99,321,097</u>
Total risk weighted assets	36(e)(i)	<u>697,309,662</u>	<u>683,238,647</u>
Core tier-one capital adequacy ratio		11.52%	11.48%
Tier-one capital adequacy ratio		11.52%	11.48%
Capital adequacy ratio		<u>14.37%</u>	<u>14.54%</u>

Notes:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

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

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

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

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

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

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

(i) Debt securities investments

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

(ii) Receivables and other non-derivative financial assets

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

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

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

(iv) Derivative financial instruments

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value

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

	30 June 2020			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	64,933	–	64,933
– interest rate swaps	–	838,746	–	838,746
– precious metal derivatives	–	6,108,484	–	6,108,484
Financial assets at fair value through profit or loss				
– debt instruments	–	905,788	–	905,788
– investment funds	40,593,720	–	–	40,593,720
– others	–	–	119,103,056	119,103,056
Financial assets at fair value through other comprehensive income				
– debt instruments	–	41,196,476	–	41,196,476
– equity instruments	–	–	4,133,955	4,133,955
Total	40,593,720	49,114,427	123,237,011	212,945,158
Liabilities				
Financial liabilities at fair value through profit or loss				
–	–	(25,078,940)	–	(25,078,940)
Derivative financial liabilities				
– currency derivatives	–	(36,704)	–	(36,704)
– interest rate swaps	–	(794,349)	–	(794,349)
Total	–	(25,909,993)	–	(25,909,993)

During the period ended 30 June 2020, there were no significant transfers between instruments in Level 1 and Level 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	119,680	–	119,680
– interest rate swaps	–	390,679	–	390,679
– precious metal derivatives	–	2,869,316	–	2,869,316
Financial assets at fair value through profit or loss				
– debt instruments	–	383,136	–	383,136
– investment funds	37,493,234	–	–	37,493,234
– others	–	–	118,815,506	118,815,506
Financial assets at fair value through other comprehensive income				
– debt instruments	–	29,132,934	–	29,132,934
– equity instruments	–	–	4,318,416	4,318,416
Total	<u>37,493,234</u>	<u>32,895,745</u>	<u>123,133,922</u>	<u>193,522,901</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
– debt instruments	–	(26,520,878)	–	(26,520,878)
Derivative financial liabilities				
– currency derivatives	–	(208,428)	–	(208,428)
– interest rate swaps	–	(350,316)	–	(350,316)
– precious metal derivatives	–	(135,729)	–	(135,729)
Total	<u>–</u>	<u>(27,215,351)</u>	<u>–</u>	<u>(27,215,351)</u>

During the year ended 31 December 2019, there were no significant transfers between instruments in Level 1 and Level 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(c) Level 2 fair value measurement

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

(d) Level 3 fair value measurement

As at 30 June 2020 and 31 December 2019, unobservable inputs such as discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly debts securities issued by banks and other financial institutions, debts securities issued by corporates, wealth management plan, beneficial investment of trust and equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

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

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

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

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

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

(iii) **Financial assets measured at amortised cost**

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

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

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

(v) *Deposits from customers*

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

(vi) *Debt securities issued*

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

(vi) Debt securities issued (Continued)

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

	30 June 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	231,821,408	238,857,929	–	143,488,490	95,369,439
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	46,223,656	45,043,126	–	45,043,126	–
– certificates of interbank deposit	28,637,326	28,478,313	–	28,478,313	–
Total	74,860,982	73,521,439	–	73,521,439	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

(vi) Debt securities issued (Continued)

	Carrying amount	31 December 2019			
		Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured					
at amortised cost	227,348,966	230,444,264	–	136,043,657	94,400,607
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	45,264,287	44,613,385	–	44,613,385	–
– certificates of interbank deposit	35,728,767	35,110,869	–	35,110,869	–
Total	80,993,054	79,724,254	–	79,724,254	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

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

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

	30 June 2020	31 December 2019
Bank acceptances	130,363,383	146,246,742
Letters of guarantees	9,115,868	6,897,886
Letters of credit	14,285,974	11,159,555
Unused credit card commitments	<u>13,344,263</u>	<u>10,617,675</u>
Total	<u>167,109,488</u>	<u>174,921,858</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Credit risk-weighted amount

	30 June 2020	31 December 2019
Credit risk-weighted amount of contingent liabilities and commitments	<u>60,849,064</u>	<u>64,396,019</u>

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

(c) Capital commitments

As at 30 June 2020 and 31 December 2019, the authorised capital commitments of the Group are as follows:

	30 June 2020	31 December 2019
Contracted but not paid for	436,218	450,529
Approved but not contracted for	<u>23,613</u>	<u>3,912</u>
Total	<u>459,831</u>	<u>454,441</u>

(d) Outstanding litigations and disputes

As at 30 June 2020 and 31 December 2019, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(e) Pledged assets

	30 June 2020	31 December 2019
Investment securities	119,970,478	114,300,413
Discounted bills	<u>26,043,007</u>	<u>7,698,929</u>
Total	<u><u>146,013,485</u></u>	<u><u>121,999,342</u></u>

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

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

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2020 and 31 December 2019, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2020 and 31 December 2019 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2020		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	130,085,750	130,085,750	130,085,750
Investment management products under trust scheme	<u>77,779,560</u>	<u>77,779,560</u>	<u>77,779,560</u>
Total	<u>207,865,310</u>	<u>207,865,310</u>	<u>207,865,310</u>

	31 December 2019		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	131,976,963	131,976,963	131,976,963
Investment management products under trust scheme	<u>76,775,572</u>	<u>76,775,572</u>	<u>76,775,572</u>
Total	<u>208,752,535</u>	<u>208,752,535</u>	<u>208,752,535</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

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

During the six months ended 30 June 2020, the amount of fee and commission income received from the above mentioned structured entities by the Group is RMB388.43 million (six months ended 30 June 2019: RMB203.08 million).

As at 30 June 2020, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB59,438 million (31 December 2019: RMB61,328 million).

During the six months ended 30 June 2020, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2020, but matured before 30 June 2020, is RMB4,529 million (six months ended 30 June 2019: RMB8,141 million).

40 CONSOLIDATED STRUCTURED ENTITIES

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

As at 30 June 2020, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB1,729 million (31 December 2019: RMB3,238 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management product on the Group's financial performance is not significant.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

41 FIDUCIARY ACTIVITIES

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

As at 30 June 2020, the entrusted loans balance of the Group is RMB2,212 million (31 December 2019: RMB2,415 million).

42 TRANSFERRED FINANCIAL ASSETS

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognises the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards undertaken by the Group with value changes of the transferred financial assets. The amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB3,878 million as at 30 June 2020 (31 December 2019: Nil) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB645 million as at 30 June 2020 (31 December 2019: Nil).

43 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

44 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. These contingency measures include: assessing the quality of loans and receivables and liaising with high-risk borrowers; negotiating with borrowers on loans payment schedule, etc. The Group will keep the contingency measures under review as the situation evolves.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(a) Liquidity coverage ratio

	As at 30 June 2020	Average for the six months ended 30 June 2020	As at 31 December 2019	Average for the year ended 31 December 2019
Liquidity coverage ratio (RMB and foreign currency)	147.92%	149.29%	150.66%	166.71%

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (CONTINUED)

(b) Leverage ratio

	30 June 2020	31 December 2019
Leverage ratio	6.73%	6.50%

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

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

2 CURRENCY CONCENTRATIONS

	30 June 2020			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	7,358,190	6,050,587	1,196,794	14,605,571
Spot liabilities	(15,312,361)	(2,083,587)	(1,786,012)	(19,181,960)
Net long position	(7,954,171)	3,967,000	(589,218)	(4,576,389)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 CURRENCY CONCENTRATIONS (CONTINUED)

	31 December 2019			
	US Dollars	HK Dollars	Others	Total
	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Spot assets	5,733,171	5,917,943	1,341,736	12,992,850
Spot liabilities	<u>(10,681,007)</u>	<u>(460,447)</u>	<u>(5,975,609)</u>	<u>(17,117,063)</u>
Net long position	<u><u>(4,947,836)</u></u>	<u><u>5,457,496</u></u>	<u><u>(4,633,873)</u></u>	<u><u>(4,124,213)</u></u>

3 INTERNATIONAL CLAIMS

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 INTERNATIONAL CLAIMS (CONTINUED)

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

	As at 30 June 2020			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	556,773	6,327,404	2,985,799	9,869,976
North and South America	–	603,362	–	603,362
Europe	–	9,958	–	9,958
Total	556,773	6,940,724	2,985,799	10,483,296

	As at 31 December 2019			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	381,895	6,443,190	2,129,566	8,954,651
North and South America	–	1,202,308	–	1,202,308
Europe	–	578,258	–	578,258
Total	381,895	8,223,756	2,129,566	10,735,217

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	30 June 2020	31 December 2019
Northeast China	10,671,067	13,774,299
North China	6,465,180	8,857,666
Others	960,828	1,759,000
Total	18,097,075	24,390,965

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

	30 June 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,674,567	6,337,310
– between 6 months and 1 year (inclusive)	2,161,989	3,483,764
– over 1 year	8,705,258	7,964,166
Total	12,541,814	17,785,240
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.33%	1.39%
– between 6 months and 1 year (inclusive)	0.42%	0.76%
– over 1 year	1.70%	1.74%
Total	2.45%	3.89%

DEFINITION

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

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank” or “Shengjing Bank”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBIRC Liaoning Bureau”	China Banking and Insurance Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITION (CONTINUED)

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the six months ended 30 June 2020
“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Supervisor(s)”	the supervisor(s) of the Bank
“%”	per cent.



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