



泸州银行股份有限公司
LUZHOU BANK CO., LTD.

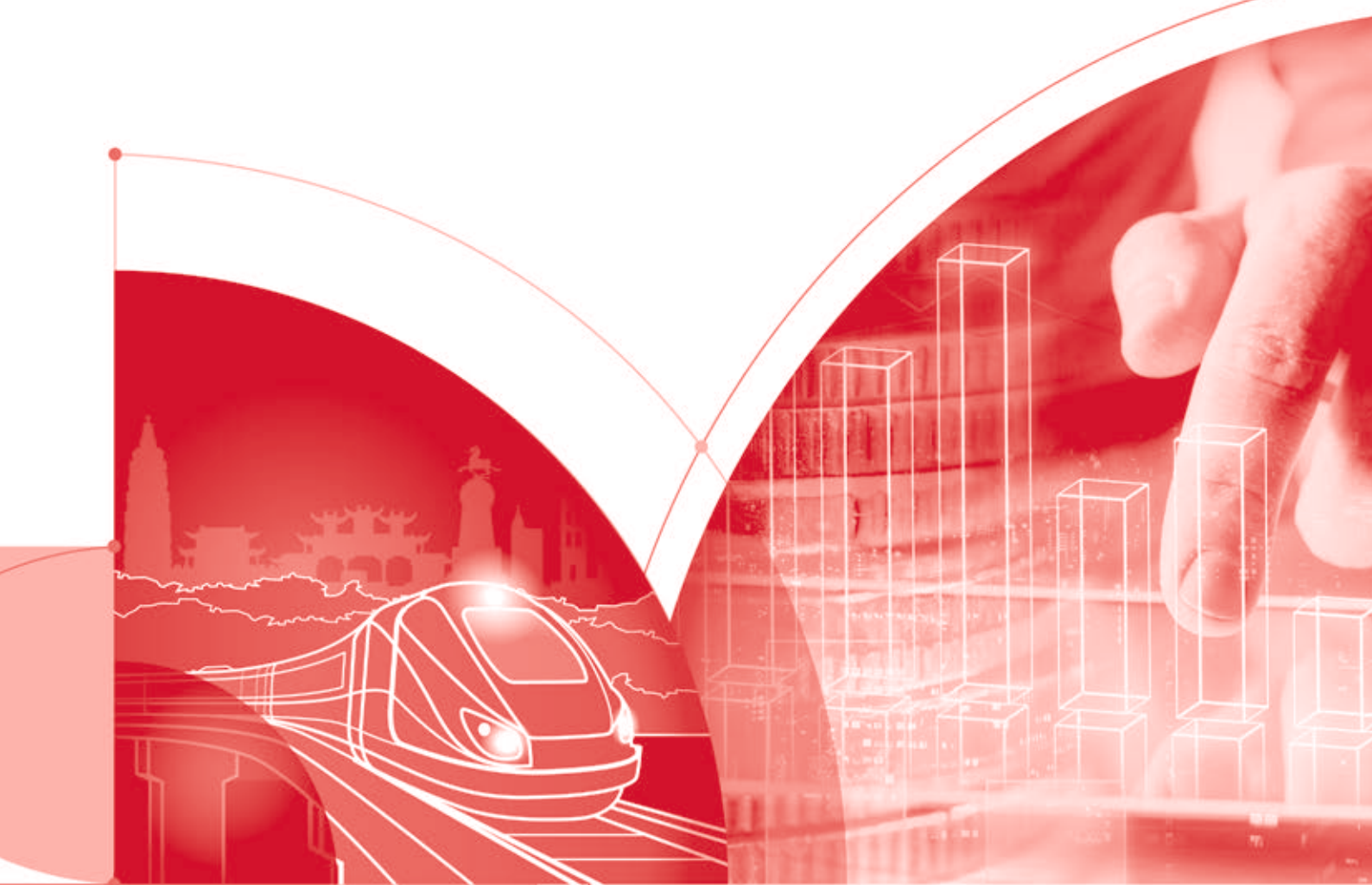
泸州银行股份有限公司*
Luzhou Bank Co., Ltd.*

(於中華人民共和國註冊成立的股份有限公司)
(A joint stock company incorporated in the People's Republic of China with limited liability)
股份代號：1983 Stock Code: 1983



中期報告
INTERIM REPORT
2021

- * 泸州银行股份有限公司並非香港法例第155章《銀行業條例》所指認可機構，不受香港金融管理局的監督，亦不獲授權在香港經營銀行／接受存款業務。
- * Luzhou Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.



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Corporate Overview

I. CORPORATE PROFILE

- (i) Legal Names
 - 1. Legal Chinese Name: 泸州银行股份有限公司
(Abbreviation: “泸州银行”)
 - 2. Legal English Name: LUZHOU BANK CO., LTD.
(Abbreviation: “LUZHOU BANK”)
- (ii) Registered Capital: RMB2,264,793,385
- (iii) Legal Representative: Mr. YOU Jiang
- (iv) Authorized Representatives: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (v) Joint Company Secretaries: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (vi) Listing Place of H Shares: The Stock Exchange of Hong Kong Limited
- (vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)
- (viii) Registered Address: Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
- (ix) Principal Place of Business in Hong Kong: 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong
- (x) Contact Address:
Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
Post Code: 646000
Website: www.lzccb.cn
- (xi) Auditor:
International: PricewaterhouseCoopers
Address: 22/F, Prince’s Building, Central, Hong Kong
Domestic: PricewaterhouseCoopers Zhong Tian LLP
Address: 11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
- (xii) PRC Legal Advisor: JunHe LLP, Shanghai Office
- (xiii) Hong Kong Legal Advisor: King & Wood Mallesons
- (xiv) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited
- (xv) Other Relevant Information of the Company
Registration Date: September 15, 1997
Registration Authority: Luzhou City Administration for Market Regulation in Sichuan Province, the PRC
Unified Social Credit Code: 91510500708926271U
Financial License Institution Number: B0210H251050001
Customer Service and Complaints Hotline: 0830-96830
Tel: 0830-2362606
Fax: 0830-3100625
E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou Bank Co., Ltd. was established on September 15, 1997 as approved by the PBOC. The Bank has branches in Chengdu and Meishan with a total of 30 operating outlets established. The Bank is preparing to set up five branches, including Suining branch, Jinniu sub-branch and Jintang sub-branch in Chengdu. As at the end of the Reporting Period, our total assets amounted to RMB128,390 million, our total customers loans amounted to RMB69,551 million, and our total customer deposits amounted to RMB89,939 million.

Our H shares have been listed on the main board of Hong Kong Stock Exchange on December 17, 2018 (stock code: 1983).

Financial Summary

Unit: RMB' 000

For the six months ended June 30,			
Item	2021	2020	Year-on year change
Operating results			change (%)
Net interest income	1,502,940	1,474,073	1.96
Net fee and commission income	5,058	2,250	124.80
Operating income	1,670,356	1,644,275	1.59
Operating expenses	(589,150)	(458,612)	28.46
Expected credit losses	(362,257)	(610,286)	(40.64)
Profit before income tax	721,120	578,003	24.76
Net profit	563,764	449,115	25.53
Net profit attributable to shareholders of the Bank	563,764	449,115	25.53
Per share (RMB)			change
Net assets per share attributable to our shareholders ⁽¹⁾	3.43	3.12	0.31
Basic earnings per share ⁽²⁾	0.21	0.20	0.01
Diluted earnings per share	0.21	0.20	0.01
Item	June 30, 2021	December 31, 2020	Year-on year change
Scale indicators (RMB' 000)			change (%)
Total assets	128,390,372	118,886,259	7.99
Of which: net customers loans ⁽³⁾	67,637,444	57,585,311	17.46
Total liabilities	118,927,450	109,937,310	8.18
Of which: customer deposits	89,939,304	85,223,104	5.53
Share capital	2,264,793	2,264,793	0.00
Equity attributable to our shareholders	9,462,922	8,948,949	5.74
Total equity	9,462,922	8,948,949	5.74
Asset quality indicators (%)			change
NPL ratio	0.84	1.83	(0.99)
Allowance coverage ratio	330.08	187.43	142.65
Allowance to gross loan ratio	2.76	3.43	(0.67)
Capital adequacy indicators (%)			change
Core tier-one capital adequacy ratio ⁽⁴⁾	8.08	8.11	(0.03)
Tier-one capital adequacy ratio ⁽⁴⁾	9.85	10.01	(0.16)
Capital adequacy ratio ⁽⁴⁾	13.53	13.87	(0.34)
Other indicators (%)			change
Liquidity ratio	96.36	83.02	13.34

Financial Summary

Item	For the six months ended June 30,		
	2021	2020	Year-on Year change
Profitability indicators (%)			change
Return on average total assets ⁽⁵⁾	0.91	0.89	0.02
Return on average equity ⁽⁶⁾	12.21	11.87	0.34
Net interest spread ⁽⁷⁾	2.78	2.84	(0.06)
Net interest margin ⁽⁸⁾	2.64	3.01	(0.37)
Cost-to-income ratio ⁽⁹⁾	33.98	26.93	7.05

Notes:

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



Management Discussion and Analysis

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

1. ENVIRONMENT AND PROSPECT

In the first half of 2021, there was a rise in both international commodity prices and geopolitical risks, the COVID-19 pandemic fluctuated in China, and a structural differentiation was shown in economic recovery. With the accurate policy by the PRC government to proactively respond to external and internal risks and challenges, the economic development showed a trend of steady consolidation and improvement. According to the National Bureau of Statistics, China's GDP in the first half of 2021 was RMB53.2167 trillion, representing a year-on-year increase of 12.7%. The global economic landscape is expected to remain complicated and severe in the second half of the year and the economic recovery will be imbalanced and unsteady as significant uncertainties present in the economic growth. However, the complete and intact industrial system, a sufficient supply of labor resources and a vast market are accelerating the establishment of a new development pattern focusing on the domestic circulation with the synergy of domestic and international dual circulations. This will effectively stimulate market demand and make China the main force driving the global economic recovery.

Sichuan is a large province in terms of population and economy. In the first half of the year, the provincial economy showed a continual growth trend. With both the strong supply and demand of the market, the economic vitality increased significantly, and the quality of economic development quickly improved. The GDP of Sichuan was RMB2.5232 trillion, representing a year-on-year increase of 12.1%, and a two-year average growth rate 6.2% which was 0.9 percentage point higher than the national level. The establishment of Chengdu-Chongqing Double-City Economic Circle is a major strategy formulated by the PRC government for Chengdu-Chongqing regional development, in order to define the important positioning of “one pole, two centers and two places” for the region, allowing Sichuan to capture strategic opportunities, and further promoting the development layout of “one branch with multiple branches and five districts in coordination” for Sichuan to become a crucial growth pole and a new source of driving force for the high-quality development across the country. Luzhou thus possesses the geographical advantage as it is adjacent to Chongqing. Luzhou is currently actively participating in the construction of Chengdu-Chongqing Double-City Economic Circle, focusing on forming the regional development pattern based on “One Core and Two Wings” strategy to accelerate the forging of regional central city for embracing historic opportunities of economic societal development.

In the first half of 2021, the Bank's various operations progressed steadily and orderly, and the NPL ratio dropped to 0.84%. The setting up of quality cadre and talent teams of management system was completed smoothly. Meishan Branch, our second branch, and Qingyang sub-branch in Chengdu successfully opened, while Jintang sub-branch and Jinniu sub-branch in Chengdu obtained commencement approval and they are expected to be operating in the third quarter. We are also accelerating the establishment of Suining branch, Wuhou sub-branch and Pilot Free Trade Zone sub-branch in Chengdu to lay a solid foundation for the Bank's future development. Despite the heavy downward pressure on the economy and stricter financial regulatory policies, the Bank is confident in realizing better development and obtaining better results, so as to deliver better returns to shareholders, and we will strive hard to reach such objectives.

Management Discussion and Analysis

2. DEVELOPMENT STRATEGIES

In the second half of 2021, we will continue to take the sophisticated team, stellar performance, competitive salary, and first-class reputation as the basic operation guidelines, highlighting high-quality development, increase support for the real economy, actively integrate into the construction of the Chengdu-Chongqing Double-City Economic Circle, and strengthen scientific and technological support and innovation-oriented development. We will continue to optimize the liability structure, implement risk prevention and control, adhere to compliance operations, and strive to achieve sustained and sound development in the service of economic and social development.

3. ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial Results Highlights

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
Net interest income	1,502,940	1,474,073
Net fee and commission income	5,058	2,250
Net gains on trading activities, net gains on financial investments and other operating income	162,358	167,952
Operating expenses	(589,150)	(458,612)
Expected credit losses	(362,257)	(610,286)
Share of profits of an associate	2,171	2,626
Profit before income tax	721,120	578,003
Income tax expenses	(157,356)	(128,888)
Net profit	563,764	449,115
Of which: net profit attributable to shareholders of the Bank	563,764	449,115

For the six months ended June 30, 2021, the Bank's profit before income tax amounted to RMB721 million, representing an increase of RMB143 million or 24.76% as compared to the same period of the previous year, and the net profit of RMB564 million, representing an increase of RMB115 million or 25.53% as compared to the same period of the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before income tax.

Unit: RMB' 000

Item	Amount
Profit before income tax for the six months ended June 30, 2020	578,003
Changes in 2021	
Changes in net interest income	28,867
Changes in net fee and commission income	2,808
Changes in net gains on trading activities, net gains on financial investments and other operating income	(5,594)
Changes in operating expenses	(130,538)
Changes in expected credit losses	248,029
Changes in share of profits of an associate	(455)
Profit before income tax for the six months ended June 30, 2021	721,120

Management Discussion and Analysis

3.2 Operating Income

In the first half of 2021, the Bank's operating income amounted to RMB1,670 million, representing an increase of RMB26 million or 1.59% as compared to the same period of the previous year. Among which, net interest income accounted for 89.98%, representing an increase of 0.33 percentage point as compared to the same period of the previous year. Net non-interest income amounted to RMB167 million, accounting for 10.02%. The following table sets forth the components of the Bank's operating income and its comparison with the same period of the previous year.

Unit: %

Item	For the six months ended June 30,	
	2021	2020
Net interest income	89.98	89.65
Net fee and commission income	0.30	0.14
Net gains on trading activities, net gains on financial investments and other operating income	9.72	10.21
Total	100.00	100.00

3.3 Net Interest Income

For the six months ended June 30, 2021, the Bank's net interest income amounted to RMB1,503 million, representing an increase of RMB29 million or 1.96% as compared to the same period of the previous year, mainly due to the increase of the scale of interest-earning assets. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB' 000

Item	For the six months ended June 30,					
	2021			2020		
	Average balance	Interest income/expense	Average yield/cost rate (%)	Average balance	Interest income/expense	Average yield/cost rate (%)
Interest-earning assets						
Customer loans	66,641,000	2,330,713	6.99	50,767,684	1,811,745	7.14
Investment ⁽¹⁾	31,212,681	999,207	6.40	32,803,411	1,124,872	6.86
Amounts due from banks and other financial institutions ⁽²⁾	6,439,600	62,571	1.94	6,848,618	55,063	1.61
Balances with central bank	9,777,797	57,051	1.17	7,405,034	48,297	1.30
Total	114,071,078	3,449,542	6.05	97,824,747	3,039,977	6.22

Management Discussion and Analysis

Unit: RMB' 000

Item	For the six months ended June 30,					
	Average balance	2021 Interest income/expense	Average yield/cost rate (%)	Average balance	2020 Interest income/expense	Average yield/cost rate (%)
Interest-bearing liabilities						
Customer deposits	92,792,443	1,511,906	3.26	67,093,071	1,085,821	3.24
Amounts due to banks and other financial institutions ⁽³⁾	5,376,362	79,535	2.96	5,517,536	96,276	3.49
Debt securities issued	18,501,799	332,613	3.60	19,507,112	375,905	3.85
Others	2,490,157	22,548	1.81	567,818	7,902	2.78
Total	119,160,761	1,946,602	3.27	92,685,537	1,565,904	3.38
Net interest income	-	1,502,940	-	-	1,474,073	-
Net interest spread	-	-	2.78	-	-	2.84
Net interest margin	-	-	2.64	-	-	3.01

Notes:

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

As of June 30, 2021, the average balance of interest-earning assets of the Bank was RMB114,071 million, representing an increase of RMB16,246 million or 16.61% as compared to the same period of the previous year, mainly due to an increase in the volume of customer loans. Net interest margin was 2.64%, representing a decrease of 0.37 percentage point as compared to the same period of the previous year; and net interest spread was 2.78%, representing a decrease of 0.06 percentage point as compared to the same period of the previous year, mainly because the increase of interest expense on interest-bearing liabilities outpaced the increase of interest income from interest-earning assets.

Management Discussion and Analysis

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

Unit: RMB' 000

Item	June 30, 2021 vs. June 30, 2020		
	Due to volume	Due to interest rate	Net increase (decrease)
Assets			
Customer loans	555,156	(36,188)	518,968
Investments	(50,924)	(74,741)	(125,665)
Amounts due from banks and other financial institutions	(3,974)	11,482	7,508
Balances with central bank	13,844	(5,090)	8,754
Changes in interest income	514,102	(104,537)	409,565
Liabilities			
Customer deposits	418,730	7,355	426,085
Amounts due to banks and other financial institutions	(2,088)	(14,653)	(16,741)
Debt securities issued	(18,073)	(25,219)	(43,292)
Others	17,407	(2,761)	14,646
Changes in interest expense	415,976	(35,278)	380,698
Changes in net interest income	98,126	(69,259)	28,867

3.4 Interest Income

For the six months ended June 30, 2021, the Bank's interest income amounted to RMB3,450 million, representing an increase of RMB410 million or 13.47% as compared to the same period of the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from customer loans and investments constituted the major part of the interest income of the Bank.

Management Discussion and Analysis

3.4.1 Interest Income from customer loans

For the six months ended June 30, 2021, the Bank's interest income from customer loans amounted to RMB2,331 million, representing an increase of RMB519 million or 28.64% as compared to the same period of the previous year. The following table sets forth the average balance, interest income and average yield of each component of the customer loans of the Bank for the periods indicated.

Unit: RMB' 000

Item	For the six months ended June 30,					
	Average balance	2021 Interest income	Average yield (%)	Average balance	2020 Interest income	Average yield (%)
Corporate loans	59,041,473	2,107,877	7.14	44,636,585	1,615,441	7.24
Personal loans	7,599,527	222,836	5.86	6,131,099	196,304	6.40
Total customer loans	66,641,000	2,330,713	6.99	50,767,684	1,811,745	7.14

3.4.2 Interest Income from investments

For the six months ended June 30, 2021, the Bank's interest income from investments amounted to RMB999 million, representing a decrease of RMB126 million or 11.17% as compared to the same period of the previous year, mainly due to the decrease in the investment volume and average yield rate.

3.4.3 Interest income due from banks and other financial institutions

For the six months ended June 30, 2021, the Bank's interest income due from banks and other financial institutions amounted to RMB63 million, representing an increase of RMB8 million or 13.64% as compared to the same period of the previous year, mainly due to the increase in average yield rate in amounts due from banks and other financial institutions, but the increase in interest income was partially offset by the decrease in the volume in amounts due from banks and other financial institutions.

3.4.4 Interest income from balances with central bank

For the six months ended June 30, 2021, the Bank's interest income from balances with central bank amounted to RMB57 million, representing an increase of RMB9 million or 18.13% as compared to the same period of the previous year, mainly due to an increase in the volume of deposit reserve with central bank.

Management Discussion and Analysis

3.5 Interest Expense

For the six months ended June 30, 2021, the Bank's interest expense amounted to RMB1,947 million, representing an increase of RMB381 million or 24.31% as compared to the same period of the previous year, mainly due to an increase in the volume of interest-bearing liabilities. Interest expenses on customer deposits and debt securities issued constituted the major part of the interest expense of the Bank.

3.5.1 Interest expense on customer deposits

For the six months ended June 30, 2021, the Bank's interest expense on customer deposits amounted to RMB1,512 million, representing an increase of RMB426 million or 39.24% as compared to the same period of the previous year. The following table sets forth the average balance, interest expense and average cost rate of each component of the Bank's customer deposits for the periods indicated.

Unit: RMB' 000

Item	For the six months ended June 30,					
	2021			2020		
	Average balance	Interest expense	Average Cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	38,127,221	410,130	2.15	26,294,586	274,967	2.09
Time	8,853,288	135,299	3.06	7,025,489	86,128	2.45
Subtotal	46,980,509	545,429	2.32	33,320,075	361,095	2.17
Personal deposits						
Demand	7,280,414	72,844	2.00	3,635,374	10,246	0.56
Time	38,531,520	893,633	4.64	30,137,622	714,480	4.74
Subtotal	45,811,934	966,477	4.22	33,772,996	724,726	4.29
Total customer deposits	92,792,443	1,511,906	3.26	67,093,071	1,085,821	3.24

3.5.2 Interest expense due to banks and other financial institutions

For the six months ended June 30, 2021, the interest expense due to banks and other financial institutions was RMB80 million, representing a decrease of RMB17 million or 17.39% as compared to the same period of the previous year, mainly due to a decrease in both the volume and average cost of amounts due to banks and other financial institutions.

3.5.3 Interest expense on debt securities issued

For the six months ended June 30, 2021, the Bank's interest expense on debt securities issued amounted to RMB333 million, representing a decrease of RMB43 million or 11.52% as compared to the same period of the previous year, mainly due to the decrease in the volume of debt securities issued and average cost.

Management Discussion and Analysis

3.6 Net Non-interest Income

For the six months ended June 30, 2021, the Bank's net non-interest income amounted to RMB167 million, representing a decrease of RMB3 million or 1.64% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated and the same period of the previous year.

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
Fee and commission income	9,531	4,570
Less: fee and commission expense	4,473	2,320
Net fee and commission income	5,058	2,250
Net gains on trading activities, net gains on financial investments and other operating income	162,358	167,952
Total net non-interest income	167,416	170,202

3.7 Net Fee and Commission Income

For the six months ended June 30, 2021, the Bank's net fee and commission income amounted to RMB5.06 million, representing an increase of RMB2.81 million as compared to the same period of the previous year.

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
Fee and commission income		
Commission income from settlement services	1,216	779
Commission income from bank card services	1,018	868
Commission income from agency services	853	541
Commission income from guarantees and credit commitments services	2,850	1,147
Commission income from wealth management agency services	3,565	399
Commission income from investment banking services	–	817
Other commission income	29	19
Total	9,531	4,570
Fee and commission expense	(4,473)	(2,320)
Net fee and commission income	5,058	2,250

Management Discussion and Analysis

3.8 Net Gains on Trading Activities, Net Gains on Financial Investments and Other Operating Income

For the six months ended June 30, 2021, the Bank's net gains on trading activities, net gains on financial investments and other operating income amounted to a total gain of RMB162 million, representing a decrease of RMB6 million or 3.33% as compared to the same period of the previous year. Among them, net gains on trading activities decreased by RMB41 million as compared to the same period of the previous year. Net gains on financial investments increased by RMB41 million as compared to the same period of the previous year. The following table sets forth the major components of the Bank's net gains on trading activities, net gains on financial investments and other operating income for the periods indicated.

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
Net gains on trading activities	36,747	77,951
Net gains on financial investments	118,544	77,882
Other operating income	7,067	12,119
Total	162,358	167,952

3.9 Operating Expenses

For the six months ended June 30, 2021, the Bank's operating expenses amounted to RMB589 million, representing an increase of RMB131 million or 28.46% as compared to the same period of the previous year. Among them, staff costs (including Directors' and Supervisors' emoluments (allowance inclusive)) increased by RMB93 million or 33.17% as compared to the same period of the previous year. Business and administrative expenses increased by RMB23 million or 29.99% as compared to the same period of the previous year; taxes and surcharges increased by RMB6 million or 36.52% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
Staff costs (including Directors' and Supervisors' emoluments (allowance inclusive))	371,852	279,241
Business and administrative expenses	99,878	76,835
Professional service fees	7,986	12,581
Depreciation and amortisation	78,375	68,915
Taxes and surcharges	21,504	15,752
Expenditures on public welfare donations	4,695	1,350
Other non-operating expenses	74	370
Others	4,786	3,568
Total	589,150	458,612

Management Discussion and Analysis

3.10 Expected Credit Losses

For the six months ended June 30, 2021, the Bank's expected credit losses amounted to RMB362 million, representing a decrease of RMB248 million or 40.64% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's expected credit losses for the periods indicated.

Unit: RMB' 000

Item	For the six months ended June 30,	
	2021	2020
ECL for loans at amortised cost	324,722	518,770
ECL for loans – FVOCI	11,748	41,790
ECL for credit related financial assets	(129)	7,807
ECL for other financial investments	27,836	35,292
ECL for guarantee commitments	(2,879)	4,288
Other impairment losses	959	2,339
Total	362,257	610,286

Expected credit losses on loans constituted the largest part of impairment losses on assets. For the six months ended June 30, 2021, the expected credit losses on loans (including discounted bills) amounted to RMB336 million, representing a decrease of RMB224 million or 39.98% as compared to the same period of the previous year.

Management Discussion and Analysis

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

4.1 Assets

As of the end of June 2021, the Bank's total assets amounted to RMB128,390 million, representing an increase of RMB9,504 million or 7.99% as compared to the end of the previous year, mainly due to the increase of the Bank's customer loans. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Total customer loans	69,551,181	54.17	59,623,716	50.15
ECL allowance on loans at amortised cost	(1,913,737)	(1.49)	(2,038,405)	(1.71)
Net customer loans	67,637,444	52.68	57,585,311	48.44
Cash and balances with central bank	10,354,728	8.06	10,490,071	8.82
Financial assets held under resale agreements, due from other banks and financial institutions	2,331,475	1.82	4,961,948	4.17
Financial investments – credit related financial assets	3,396,516	2.65	3,709,265	3.12
Financial investments – financial assets at fair value through profit or loss	13,100,283	10.20	16,483,953	13.87
Financial investments – financial assets at fair value through other comprehensive income	9,431,584	7.35	8,100,931	6.81
Financial investments – amortised cost	20,342,395	15.84	15,670,828	13.18
Investment in an associate	47,346	0.04	45,175	0.04
Property, plant and equipment	818,196	0.64	804,894	0.68
Deferred income tax assets	603,933	0.47	628,037	0.53
Other assets	326,472	0.25	405,846	0.34
Total assets	128,390,372	100.00	118,886,259	100.00

Management Discussion and Analysis

Customer loans

As of the end of June 2021, the Bank's total customer loans amounted to RMB69,551 million, representing an increase of RMB9,927 million or 16.65% as compared to the end of the previous year; net customer loans amounted to RMB67,637 million, representing an increase of RMB10,052 million or 17.46% as compared to the end of the previous year. The following table sets forth the customer loans of the Bank by product type as of the dates indicated.

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Corporate loans	56,039,051	80.57	46,850,100	78.58
Discounted bills	5,336,479	7.67	4,778,348	8.01
Personal loans	7,950,565	11.43	7,724,429	12.96
Accrued interest	225,086	0.33	270,839	0.45
Total customer loans	69,551,181	100.00	59,623,716	100.00
Less: ECL allowance on loans				
at amortised cost	(1,913,737)	/	(2,038,405)	/
Net customer loans	67,637,444	/	57,585,311	/

Corporate loans

As of the end of June 2021, the Bank's total corporate loans amounted to RMB56,039 million, representing an increase of RMB9,189 million or 19.61% as compared to the end of the previous year, accounting for 80.57% of the total customer loans, representing an increase of 1.99 percentage points as compared to the end of the previous year.

Discounted bills

As of the end of June 2021, the Bank's total discounted bills amounted to RMB5,336 million, representing an increase of RMB558 million or 11.68% as compared to the end of the previous year, accounting for 7.67% of the total customer loans, representing a decrease of 0.34 percentage point as compared to the end of the previous year.

Personal loans

As of the end of June 2021, the Bank's personal loans amounted to RMB7,951 million, representing an increase of RMB226 million or 2.93% as compared to the end of the previous year, accounting for 11.43% of the total customer loans, representing a decrease of 1.53 percentage points as compared to the end of the previous year.

Management Discussion and Analysis

Investments

As of the end of June 2021, the carrying value of the Bank's investments amounted to RMB46,271 million, representing an increase of RMB2,306 million or 5.24% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Financial investments – credit related financial assets	3,396,516	7.34	3,709,265	8.44
Financial investments – financial assets at fair value through profit or loss	13,100,283	28.31	16,483,953	37.49
Financial investments – financial assets at fair value through other comprehensive income	9,431,584	20.38	8,100,931	18.43
Financial investments – amortised cost	20,342,395	43.97	15,670,828	35.64
Total	46,270,778	100.00	43,964,977	100.00

Financial investments - credit related financial assets

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

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Financial investments – credit related financial assets		
– Trust plans	3,560,350	3,896,600
Less : ECL allowance	(246,520)	(246,649)
Accrued interest	82,686	59,314
Total	3,396,516	3,709,265

Management Discussion and Analysis

Financial investments - financial assets at fair value through profit or loss

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

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Financial investments – financial assets at fair value through profit or loss		
– Listed outside Hong Kong	7,290,625	6,179,494
– Unlisted	5,809,658	10,304,459
Total	13,100,283	16,483,953

Financial investments - financial assets at fair value through other comprehensive income

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

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Financial investments – financial assets at FVOCI		
– Listed outside Hong Kong	4,789,857	4,370,987
– Unlisted	4,381,433	3,544,857
Subtotal	9,171,290	7,915,844
Accrued interest	260,294	185,087
Total	9,431,584	8,100,931

Management Discussion and Analysis

Financial investments - amortised cost

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

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Financial investments – amortised cost		
– Listed outside Hong Kong	1,048,962	689,931
– Unlisted	19,437,581	15,200,901
Subtotal	20,486,543	15,890,832
Accrued interest	345,641	254,938
Less: expected credit impairment provision	(489,789)	(474,942)
Total	20,342,395	15,670,828

4.2 Liabilities

As of the end of June 2021, the Bank's total liabilities amounted to RMB118,927 million, representing an increase of RMB8,990 million or 8.18% as compared to the end of the previous year, mainly due to the stable increase in customer deposits and debt securities issued. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Customer deposits	89,939,304	75.63	85,223,104	77.52
Due to banks and other financial institutions	4,068,818	3.42	4,830,366	4.39
Borrowings from central bank	2,348,964	1.97	2,371,331	2.16
Current tax liabilities	161,855	0.14	324,365	0.29
Debt securities issued	21,781,342	18.31	16,598,490	15.10
Other liabilities	627,167	0.53	589,654	0.54
Total liabilities	118,927,450	100.00	109,937,310	100.00

Management Discussion and Analysis

Customer deposits

As of the end of June 2021, the Bank's total customer deposits amounted to RMB89,939 million, representing an increase of RMB4,716 million or 5.53% as compared to the end of the previous year, accounting for 75.63% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Corporate deposits	40,291,309	44.80	42,323,455	49.66
Demand deposits	31,334,149	34.84	34,774,888	40.80
Time deposits	8,957,160	9.96	7,548,567	8.86
Personal deposits	48,362,589	53.77	41,781,191	49.03
Demand deposits	8,084,110	8.99	6,316,539	7.41
Time deposits	40,278,479	44.78	35,464,652	41.62
Accrued interest	1,285,406	1.43	1,118,458	1.31
Total customer deposits	89,939,304	100.00	85,223,104	100.00

As of the end of June 2021, the Bank's corporate demand deposits accounted for 34.84% of total customer deposits, representing a decrease of 5.96 percentage points as compared to the end of the previous year. Corporate demand deposits accounted for 77.77% of corporate deposits, representing a decrease of 4.39 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 16.72% of personal deposits, representing an increase of 1.60 percentage points as compared to the end of the previous year.

Amounts due to banks and other financial institutions

As of the end of June 2021, the Bank's amounts due to banks and other financial institutions amounted to RMB4,069 million, representing a decrease of RMB761 million or 15.76% as compared to the end of the previous year.

Debt securities issued

As of the end of June 2021, the Bank's bonds payable amounted to RMB21,781 million, representing an increase of RMB5,183 million or 31.22% as compared to the end of the previous year.

Management Discussion and Analysis

4.3 Equity Attributable to Shareholders

As of the end of June 2021, the Bank's equity attributable to shareholders amounted to RMB9,463 million, representing an increase of RMB514 million or 5.74% as compared to the end of the previous year.

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Share capital	2,264,793	2,264,793
Other equity instruments	1,696,824	1,696,824
Capital surplus	2,239,314	2,239,314
Other reserves	2,187,647	1,750,824
Retained earnings	1,074,344	997,194
Total equity attributable to shareholders	9,462,922	8,948,949

5. OTHER FINANCIAL INFORMATION

5.1 Analysis of Off-balance Sheet Items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most important parts and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB4,044 million.

5.2 Overdue and Outstanding Debts

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

5.3 Assets Pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions. For details, please refer to note 34 to the financial statements.

Management Discussion and Analysis

6. ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen its dynamic monitoring and mitigation of risks in relation to credit asset quality, implemented credit policies and enhanced risk management in key industries. As a result, the credit assets scale maintained growth. Due to our collection of non-performing loans (“NPLs”) through multiple ways and channels, the allowance coverage ratio has met the regulatory requirements. As at the end of the Reporting Period, the Bank’s total loans amounted to RMB69,326 million, representing an increase of 16.80% as compared to the end of the previous year, total NPLs amounted to RMB580 million, representing a decrease of RMB508 million as compared to the end of the previous year, and the NPL ratio was 0.84%, representing a decrease of 0.99 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB' 000

Item	June 30, 2021		December 31, 2020	
	Amount	% of total	Amount	% of total
Normal loans	68,298,409	98.52	57,471,797	96.83
Special mention loans	447,900	0.64	793,514	1.34
Substandard loans	538,427	0.78	1,048,660	1.77
Doubtful loans	40,920	0.06	38,605	0.06
Loss loans	439	0.00	301	0.00
Total customer loans	69,326,095	100.00	59,352,877	100.00
Total NPLs	579,786	0.84	1,087,566	1.83

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank has adopted the five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. During the Reporting Period, the Bank strictly controlled the quality of loans and accelerated disposal of existing NPLs. The percentage of substandard loans decreased by 0.99 percentage point to 0.78% as compared to the end of the previous year, the percentage of doubtful loans was unchanged at 0.06% as compared to the end of the previous year, and the percentage of loss loans was unchanged at 0.00% as compared to the end of the previous year.

Management Discussion and Analysis

Distribution of Loans and NPLs by Industry

Unit: RMB' 000

Item	June 30, 2021				December 31, 2020			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	56,039,051	80.83	436,094	0.78	46,850,100	78.94	1,013,350	2.16
Leasing and business services	21,619,739	31.19	1,658	0.01	18,232,413	30.72	-	-
Construction	10,802,533	15.58	63,447	0.59	8,649,466	14.57	53,800	0.62
Wholesale and retail	3,408,214	4.92	25,671	0.75	3,274,977	5.52	150,460	4.59
Manufacturing	2,384,961	3.44	92,000	3.86	2,753,852	4.64	563,073	20.45
Real estate	9,519,192	13.73	145,610	1.53	6,883,760	11.60	145,610	2.12
Accommodation and catering	881,763	1.27	39,738	4.51	967,016	1.63	39,738	4.11
Education	1,502,900	2.17	-	-	1,277,300	2.15	-	-
Administration of water conservancy, environment and public facilities	1,978,435	2.85	-	-	1,825,815	3.08	-	-
Transportation, warehousing and express services	143,969	0.21	25,669	17.83	213,019	0.36	25,669	12.05
Others	3,797,345	5.47	42,301	1.11	2,772,482	4.67	35,000	1.26
Discounted bills	5,336,479	7.70	-	-	4,778,348	8.05	-	-
Retail loans	7,950,565	11.47	143,692	1.81	7,724,429	13.01	74,216	0.96
Total customer loans	69,326,095	100.00	579,786	0.84	59,352,877	100.00	1,087,566	1.83

In the first half of 2021, the Bank actively optimized the allocation of risk-bearing assets and served the real economy. The Bank also actively adjusted its credit structure and increased credit support to small and micro enterprises, agriculture-related economy, livelihood projects and other fields. We strictly controlled credit granted to industries with overcapacity and uncertain prospects, to improve the risk resistance for new credit assets continually. By industry, the Bank's non-performing corporate loans mainly involved real estate, manufacturing, construction, accommodation and catering, which accounted for 78.15% of our total non-performing corporate loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Product Type

Unit: RMB' 000

Item	June 30, 2021				December 31, 2020			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	56,039,051	80.83	436,094	0.78	46,850,100	78.94	1,013,350	2.16
Working capital loans	33,034,532	47.65	215,944	0.65	26,672,147	44.94	379,929	1.42
Fixed asset loans	23,004,519	33.18	220,150	0.96	20,177,953	34.00	633,421	3.14
Discounted bills	5,336,479	7.70	-	-	4,778,348	8.05	-	-
Retail loans	7,950,565	11.47	143,692	1.81	7,724,429	13.01	74,216	0.96
Individual housing loans	2,387,285	3.44	33,328	1.40	2,118,017	3.56	31,292	1.48
Personal business loans	4,454,326	6.43	101,602	2.28	4,516,094	7.61	40,183	0.89
Personal consumption loans	1,108,954	1.60	8,762	0.79	1,090,318	1.84	2,741	0.25
Total customer loans	69,326,095	100.00	579,786	0.84	59,352,877	100.00	1,087,566	1.83

Against the backdrop of replacement of old drivers with new ones and constant advance of the supply-side reform, the Bank actively responded to the changes of demand for effective credits and maintained relatively rapid growth in the scale of corporate loans while adhering to the principle of prudent credit extension. As at the end of the Reporting Period, the proportion of the Bank's corporate loans increased by 1.89 percentage points to 80.83% as compared to the end of the previous year. The NPL ratio of corporate loans decreased by 1.38 percentage points to 0.78% as compared to that at the end of the previous year as a result of the strengthening of our Bank's effort in handling corporate NPLs.

The Bank steadily developed its retail loans business and actively innovated retail business products. The balance of retail loans increased by RMB226 million as compared to that at the beginning of the year, while the proportion of retail loans decreased by 1.54 percentage points to 11.47% due to the relatively large proportion of the growth in corporate business. The amount of our NPLs increased and the NPL ratio increased by 0.85 percentage point to 1.81% as compared to the end of the previous year as a result of the deteriorated financial position and weakened repayment abilities of certain borrowers of personal business loans under the retail loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Geographical Region

Unit: RMB' 000

Geographical Region	Amount of loans	June 30, 2021			December 31, 2020			
		% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	50,983,933	73.54	548,247	1.08	48,100,929	81.04	1,064,131	2.21
Outside Luzhou	18,342,162	26.46	31,539	0.17	11,251,948	18.96	23,435	0.21
Total customer loans	69,326,095	100.00	579,786	0.84	59,352,877	100.00	1,087,566	1.83

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

Distribution of Loans and NPLs by Type of Collateral

Unit: RMB' 000

Item	Amount of loans	June 30, 2021			December 31, 2020			
		% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loans	7,769,606	11.21	134,757	1.73	5,757,772	9.70	28,450	0.49
Guaranteed loans	28,007,926	40.40	102,100	0.36	25,007,860	42.14	814,507	3.26
Collateralised loans	20,809,575	30.02	339,573	1.63	18,056,487	30.42	240,561	1.33
Pledged loans	12,738,988	18.37	3,356	0.03	10,530,758	17.74	4,048	0.04
Total customer loans	69,326,095	100.00	579,786	0.84	59,352,877	100.00	1,087,566	1.83

The Bank enhanced risk prevention and control through risk mitigation measures such as adding in guarantors and collaterals, with guaranteed loans and collateralised loans accounting for 70.42%.

Management Discussion and Analysis

Loans to Our Ten Largest Single Borrowers

Unit: RMB' 000

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Construction	900,000	6.92	1.30
B	Construction	830,000	6.38	1.20
C	Leasing and business services	800,000	6.15	1.15
D	Leasing and business services	800,000	6.15	1.15
E	Leasing and business services	774,000	5.95	1.12
F	Construction	761,000	5.85	1.10
G	Real estate	750,000	5.77	1.08
H	Real estate	750,000	5.77	1.08
I	Leasing and business services	703,367	5.41	1.01
J	Leasing and business services	680,000	5.23	0.98
Total		7,748,367	59.58	11.17

As at the end of the Reporting Period, the total loans of our ten largest single borrowers amounted to RMB7,748 million, accounting for 59.58% of the Bank's net capital base and 11.17% of the Bank's total loans. The loan balance of the largest single borrower was RMB900 million, accounting for 6.92% of the Bank's net capital base.

Distribution of Loans by Period Overdue (Excluding Interest Receivable)

Unit: RMB' 000

Period overdue	June 30, 2021		December 31, 2020	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	177,503	0.26	552,904	0.93
Overdue for over 3 months up to 1 year (inclusive)	134,315	0.19	358,048	0.60
Overdue for over 1 year up to 3 years (inclusive)	268,346	0.39	235,452	0.40
Overdue for over 3 years	1,067	0.00	1,322	0.00
Total overdue loans	581,231	0.84	1,147,726	1.93
Total customer loans	69,326,095	100.00	59,352,877	100.00

Management Discussion and Analysis

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB581 million, representing a decrease of RMB566 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 0.84%, representing a decrease of 1.09 percentage points as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB178 million, accounting for 30.54% of overdue loans.

Foreclosed Assets and Provision for Its Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB30.15 million with a provision for impairment allowance of RMB13.33 million, and the net foreclosed assets amounted to RMB16.82 million.

Changes in Expected Credit Losses of Loans

The following table sets forth the changes in the Bank's allowance for expected credit losses of loans:

Unit: RMB' 000

Item	June 30, 2021	December 31, 2020
Balance at the beginning of the period	2,038,405	1,459,984
Provision/reversal for the period	324,722	726,921
Reversal of discounted	(11,292)	24,387
Written-off and transfers for the period	(445,559)	(234,496)
Reversal from recoveries of written-off loans and others	7,461	61,609
Balance at the end of the period	1,913,737	2,038,405

As at the end of the Reporting Period, the Bank's balance of allowance for expected credit losses of loans amounted to RMB1,914 million, representing a decrease of RMB125 million or 6.12% as compared to the end of the previous year.

Corresponding Measures Taken against Non-performing Assets

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

Management Discussion and Analysis

Strengthening the monitoring of overdue loans and loans that were showing other early warning signs, and properly collecting and disposing non-performing loans. Firstly, we have ensured in-advance intervention; specifically, we have strengthened asset quality screening and management of loans associated with risk warnings, formulated risk prevention and control measures in a timely manner, and firmly prevented loans from turning into non-performing loans; secondly, we have worked out “one-customer, one-policy” risk mitigation plan in light of the specific situations of non-performing loans, and enhanced collection efforts and efficiency and reduced collection costs through non-litigation collection, litigation or arbitration collection, and enforcement of notarization; thirdly, we have explored possibilities of resolving non-performing assets through multiple channels including assignment of creditor’s rights based on the traditional collection means; fourthly, we have wrote off loans which could be written-off, if appropriate, to optimize the credit asset structure; fifthly, we have established good communication mechanisms with relevant government departments and peer institutions to maintain an open channel to convey information, and jointly address potential problems arising from corporate operations by concerted efforts.

Credit Extension to Group Customers and Risk Management

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

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

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

7. ANALYSIS OF CAPITAL ADEQUACY RATIOS

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

Management Discussion and Analysis

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

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

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

Unit: RMB' 000

	June 30, 2021	December 31, 2020
Total capital before deductions	13,000,564	12,399,788
Of which: Core tier-one capital	7,766,098	7,252,125
Tier-two capital	3,537,642	3,450,839
 Total net capital	 13,000,564	 12,399,788
 Net core tier-one capital	 7,766,098	 7,252,125
Net tier-one capital	9,462,922	8,948,949
 Total risk-weighted assets	 96,094,323	 89,382,809
 Core tier-one capital adequacy ratio	 8.08%	 8.11%
Tier-one capital adequacy ratio	9.85%	10.01%
Capital adequacy ratio	13.53%	13.87%

As at the end of the Reporting Period, the Bank had a capital adequacy ratio of 13.53%, representing a decrease of 0.34 percentage points as compared to the end of the previous year, which was 3.03 percentage points higher than the regulatory requirement; a tier-one capital adequacy ratio of 9.85%, representing a decrease of 0.16 percentage points as compared to the end of the previous year, which was 1.35 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 8.08%, representing a decrease of 0.03 percentage point as compared to the end of the previous year, which was 0.58 percentage points higher than the regulatory requirement. During the Reporting Period, the growth rate of net capital was slightly lower than the growth rate of risk-weighted assets, which resulted in a decrease in capital adequacy ratio compared with the end of the previous year. Our capital adequacy ratio at each tier was higher than regulatory standards.

Management Discussion and Analysis

Liquidity Ratios

	As of December 31, 2020
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RMB current assets to RMB current liabilities	83.02%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of June 30, 2021
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RMB current assets to RMB current liabilities	96.36%
Foreign currency current assets to foreign currency current liabilities	N/A

8. RISK MANAGEMENT

Credit Risk

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

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

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

1. Optimizing credit structure adjustment by adhering to the guidance of government policies. To actively respond to the national economic development strategy, focusing on the national direction of industrial structure adjustment, keeping up with the regional economic development strategy, further scientifically digging of and reasonably allocating our credit resources and promoting a sustainable and healthy development of our credit business, the Bank has formulated the Guidelines for Credit Extension of Luzhou Bank Co., Ltd. in 2021 (《泸州银行股份有限公司2021年信贷投向指引》) and is committed to the overall credit extension strategy of "credit extension optimization, services innovation, legal compliance, controllable risk, selective support and efficiency improvement".



Management Discussion and Analysis

2. Strengthening credit extension review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit extension business according to our business development needs; enhanced credit extension risk review and strictly implemented the independent review and approval mechanism based on the principle of “objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks” and “substance is more important than form”, with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit extension management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers, focused on substantial risks and proposed risk prevention measures to strictly control risks.
3. Strengthening risk screening and risk control in key areas. In accordance with the requirements of the regulatory authorities and our risk management and control, the Bank actively carried out various types of risk screening. We further strengthened risk management and control in areas such as on-and-off balance sheet investment, credit capital flow, authorized credit extension management, group customer management, risk asset classification and disposal. Regarding problems discovered during the screenings, we insisted on carrying out immediate rectifications while such screenings were still underway, which improved our risk management and control capabilities, reduced our credit risk and ensured the quality of our assets.
4. Preventing credit risks and deepening credit business examinations. In order to regulate the compliance of operations in all aspects of the credit business and have a full grasp of the customers’ risk profiles, we actively conducted regular and irregular examinations on credit business and credit-like business for major credit customers and customers with potential risks. Regarding problems discovered during the examinations, we demanded for rectifications by issuing risk reminders and rectification notices to further regulate credit business operations and improve our credit risk management and control capabilities.
5. Strengthening the monitoring of overdue loans and loans that were showing other early warning signs, and properly collecting and disposing of non-performing loans. We have strengthened asset quality screening and management of loans associated with risk warnings, formulated risk prevention and control measures in a timely manner, and firmly prevented loans from turning into non-performing loans; we have worked out “one-customer, one-policy” risk mitigation plans in light of the specific situations of non-performing loans, and enhanced collection efforts and efficiency through non-litigation collection, litigation or arbitration collection, enforcement of notarization and credit assignment; we have established good communication mechanisms with peer institutions and government departments to maintain an open channel to convey information, and jointly address potential problems arising from corporate operations by concerted efforts.
6. Strengthening the construction of credit team and promoting high-quality and effective development of the credit business. With the purpose of “reality in touch, demand satisfaction, rapid improvement and effectiveness”, we conducted themed training through external experts and internal business backbone personnel. Supplemented with tests or exams, we kept enhancing the training and guidance for credit line staff, improved the business ability and risk compliance awareness of our credit line staff across the Bank and established an enterprise risk control culture that was able to prevent and control substantial risks and cases.

Management Discussion and Analysis

Operational risk

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

We continuously strengthened the prevention and control measures of operational risk and prevent systematic operational risks and major operational risks losses. As at the end of the Reporting Period, there was no material operational risk event or case risk event.

As the top decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the Bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies, overall policy and system approved by our Board, formulating, reviewing periodically and supervising the implementation of policies, procedures and operating regulations of the operational risk management, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. The Bank has set up Operational Risk Management Committee which is responsible for operational risk prevention and control across the Bank. During the Reporting Period, the Bank constantly improved the prevention and control system of operational risk, gradually accomplished the operational risk prevention and control work structure of the case prevention prospect, the stage-gate ante-displacement and methods of case prevention, and improved the long-term mechanism of prevention and control of case and operational risk. We intensified operational risk management mainly in the following aspects.

1. Reinforce internal control level. We optimized the system, process and standards, strengthened special inspections and risk assessment of key businesses, established an inspection and rectification implementation mechanism, and guarded against the potential dangers of operational risk based on the analysis of key indicators of risk control and early warnings.
2. Promote the publicity of compliance culture. We carried out publicity, training and competitions, adhered to the guidance of culture, and launched the “Internal Control and Compliance Management Construction Year” activities, gradually building an effective mechanism of “not daring to, unable to and having no desire to commit acts of non-compliance”, strengthening compliance awareness, and cultivating a compliance culture.
3. Strengthen the management and control of employee behavior. We implemented inspections, work shift, compulsory vacation, observed the abnormal behavior of employees on a regular basis, and launched special governance activities for “strengthening compliance awareness and preventing operational risks”, effectively enhancing the awareness of employees to consciously resist and eliminate irregularities.
4. Raise the level of risk control in science and technology. We paid close attention to development, operation and maintenance, and outsourcing business, improved the quality and efficiency of project construction, carried out cybersecurity offense and defense drills, strengthened daily safety inspections and tests, ensured the safe operation of the system, deepened the hierarchical management of outsourcing business, and strictly abided by the risk bottom line of “never outsource safety responsibilities and never lower safety standards”.



Management Discussion and Analysis

Market risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable and reasonable range and achieving continuous and healthy development of various businesses.

Our organizational system for market risk management is jointly constituted by the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, International Business Department, Financial Markets Department, each business department and branches of head office. The Board assumes ultimate responsibility for market risk management. The senior management assumes implementation responsibility of market risk management and is responsible for organizing bank-wide market risk management. The Market Risk Management Committee under the senior management is the Bank's deliberation and decision-making body for market risk management and is responsible for deliberating on major market risk management issues. Each department carries out its work in accordance with the division of responsibilities.

We formulated the operation-suiting basic system of market risk and bank book interest rate risk appetite, and the basic system for market risk and bank book interest rate risk management according to the Guidelines on Market Risk Management of Commercial Banks 《商業銀行市場風險管理指引》, Guidelines for the Internal Control of Commercial Banks 《商業銀行內部控制指引》 and Guidelines of Bank Book Interest Rate Risk Management of Commercial Banks 《商業銀行銀行賬簿利率風險管理指引》, set up market risk and bank book interest rate risk limit indicators, and conducted classification management on transaction accounts and bank accounts. We optimized market risk management system and continued to improve risk management efficiency through such measures as authorization, credit extension, limit, inspection and report.

1. Interest rate risk analysis

Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions. We adopted corresponding measures such as identification, measurement, inspection and control according to different nature and features of bank accounts and transaction accounts.

With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We took measures in a timely manner to adjust the asset-liability product portfolio and ceiling and the pricing method of loan interest rate to ensure the risk level control is within our acceptable range, in line with internal and external management needs.

Regarding the interest rate risk of asset trading positions, we paid close attention to the domestic and oversea macro economy conditions and market liquidity changes and conducted market risk control through such measures as position setting and limit control. We used system to conduct measurement, inspection and daily management on market risk, implemented valuation to transaction positions every day, continuously inspected transaction limits, stop-loss limits and other indicators, and regularly and effectively monitored, managed and reported the implementation of risk limits.

Management Discussion and Analysis

2. Exchange rate risk analysis

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses on the foreign currency exposure, which is due to the currency structure's imbalance between foreign currency assets and liabilities. Currently, our exchange rate risk arises primarily from the temporary risk of conversion of proceeds from overseas H Share offering due to exchange rate fluctuations, and the percentage of such capital is low. Therefore, the adverse effect of exchange rate risk has been kept under our control.

Liquidity risk

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds at reasonable costs for repaying mature debts, performing other payment obligations and satisfying other capital needs for normal business operation.

Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and management systems; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation.

To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. We have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We carry out centralized management on liquidity risk. Through the establishment of a scientific and perfect system for liquidity risk management, we fully identify, accurately measure, continuously monitor, effectively control and timely report liquidity risk from two aspects: short-term provision and mid-and-long term structure with the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indicators, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate.

We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from customer deposits. Customer deposits constituted a stable fund resource due to their rapid growth, wide varieties and diversified terms during the Reporting Period.

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



Management Discussion and Analysis

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

1. We continuously optimized liquidity risk management and improved the liquidity risk management system.
2. We strengthened the marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.
3. We paid close attention to changes in financial and economic situations and market liquidity, made prudent and reasonable predictions, and adjusted our asset and liability management strategy in a timely manner; continuously monitored various indicators of liquidity risk and limits management through the information system for liquidity risk management and made fund arrangements in advance to improve liquidity risk resistance and ensure sufficient provisions and safe and controllable liquidity risks.
4. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities.
5. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks 《商業銀行流動性風險管理辦法》 issued by CBIRC, based on various macro and micro factors which could affect our liquidity and features, scale, properties, complexity and risk status of our business.

As of June 30, 2021, the liquidity ratio of the Bank was 96.36%, which was 71.36 percentage points higher than relevant regulatory requirements; The high-quality liquidity asset adequacy ratio of was 171.30%, which was 71.30 percentage points higher than relevant regulatory requirements; and the liquidity matching ratio was 156.35%, which was 56.35 percentage points higher than relevant regulatory requirements, reflecting that our major liquidity indexes met and were much higher than regulatory requirements.

Management Discussion and Analysis

Information Technology Risk Management

Attaching great importance to information technology governance and financial technology building, we built an open information technology structure by leveraging the distributed cloud computing platform and vigorously promoted the transformation of outlets by capitalizing on videos, voice, biometrics, cloud computing, big data, smart devices, mobile terminals and other technologies. We established and continued to improve the “three lines of defense” system for information technology risk management. During the Reporting Period, under the overall risk management system, we reconfirmed and improved the information technology risk appetite and risk limits, and further improved the top-level design of information technology risk management. The functional departments of information technology risk management identified problems through multiple means such as continuous monitoring, evaluation and internal and external audits. The problems-related departments worked out plans to rectify problems. The Risk Management Department and the Internal Audit Department kept track of and verified the effectiveness of problem rectification, forming a complete closed loop, thus achieving continuous improvement on information technology risk management.

In terms of business continuity management, we continuously optimized and improved the disaster recovery and backup system structure of the “two cities and three centers (兩地三中心)”. The structure was further improved in terms of physical security, system stability, and redundancy security guarantee during the Reporting Period. In addition, continuous disaster recovery drills for important information systems have verified the effectiveness of the disaster recovery and backup system.

Regarding information security, with a view to enhancing technology security, during the Reporting Period, we improved our ability to guarantee information security in an all-round way by setting up and improving norms and standards of information security, strengthening information technology outsourcing security management, enhancing terminal information security management and perfecting in-depth network defense system. We kept increasing investment in information security to further ensure safe and stable operation of the information system.



Management Discussion and Analysis

9. SEGMENT REPORTING

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

Unit: RMB' 000

Item	For the six months ended June 30, 2021		For the six months ended June 30, 2020	
	Segment profit before income tax	Ratio %	Segment profit before income tax	Ratio %
Corporate banking business	320,426	44.43	196,062	33.92
Retail banking business	177,526	24.62	104,185	18.03
Financial market business	216,560	30.03	265,134	45.87
Others	6,608	0.92	12,622	2.18
Total	721,120	100.00	578,003	100.00

Unit: RMB' 000

Item	For the six months ended June 30, 2021		For the six months ended June 30, 2020	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking business	943,318	56.47	948,540	57.69
Retail banking business	265,527	15.90	184,103	11.19
Financial market business	454,439	27.21	499,494	30.38
Others	7,072	0.42	12,138	0.74
Total	1,670,356	100.00	1,644,275	100.00

Management Discussion and Analysis

10. BUSINESS REVIEW

Corporate Banking Business

Adhering to the management tenet of “basing on local conditions, serving small and medium-sized enterprises, paying attention to the people’s livelihood and caring for the citizens”, we actively participate in economic construction and social development of Luzhou, and provide our corporate customers with diversified financial products and services to support their business needs.

Corporate loans

As at the end of the Reporting Period, the balance of our corporate loans amounted to RMB56,039 million, accounting for 80.57% of our total customer loans and advances as of the same date, and representing an increase of 19.61% as compared to the start of the year. In particular, our loans to medium to large enterprises amounted to RMB18,765 million, accounting for 33.49% of our total corporate loans as of the same date; our loans to micro and small enterprises amounted to RMB37,116 million, accounting for 66.23% of our total corporate loans as of the same date. Our other corporate loans amounted to RMB158 million, accounting for 0.28% of our total corporate loans as of the same date. The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio.

Bill discounting

Bill discounting refers to the bank acceptance bills and commercial acceptance bills purchased by the Bank from our corporate customers at prices lower than the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

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

As of June 30, 2021, our discounted bills amounted to RMB5,336 million, accounting for 7.67% of our total customer loans as of the same date.

Corporate deposits

As at the end of the Reporting Period, the balance of our corporate customer deposits amounted to RMB40,291 million, accounting for 44.80% of the total deposit balance. Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations.



Management Discussion and Analysis

Corporate products

For the different financing needs of corporate customers, we provided customers with efficient and convenient financing services by giving full play to the agile decision-making advantage of the local legal-person institution.

We have rolled out “Tian Tian Loan” featuring one-time credit extension, recycling and a favourable treatment of interest-free repayment in the first seven days during each extension, where customers can realize instant withdrawal and repayment through our short message services (SMS), so as to maximize the efficiency of capital use; “Shui Jin Loan”, a credit product which takes the average amount of the total tax paid during the latest two years as its main basis of credit extension; “Piao Bao Tong”, which is designed for discounting the electronic commercial acceptance bills issued by the core enterprises to their upstream and downstream enterprises; “Piao e Loan”, with the value-added tax invoicing amount as the main basis of credit extension; and “Le Ye Loan”, a personal operating loan product for production and operation, which was granted in batches to small and micro business operators affiliated with core enterprises.

Corporate banking customer base

As at the end of the Reporting Period, we had a total of 24,538 corporate banking customers, representing an increase of 3,153 or 14.74% as compared to the start of the year. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers. At the same time, we have also established a special customer relationship management system, which allows us to closely track our customers’ and their partners’ business transactions with our Bank, enabling us to offer tailored financial services for them.

Financial services for micro and small enterprises

We are determined to implement the requirements of the Central Committee of the Communist Party of China and the State Council on providing financial support for micro and small enterprises, and takes serving micro small enterprises as the major starting point for fulfilling inclusive finance and social responsibility. By innovating products, streamlining procedures, reducing fees and profits, and deepening the assessment, we effectively improve the quality and efficiency of financial services for micro and small enterprises. As at the end of the Reporting Period, our loan balance to micro and small enterprises amounted to RMB43,118 million. The number of micro and small customers was 7,242. The balance of our inclusive finance loans to micro and small enterprises (excluding bills) amounted to RMB7,041 million. The number of micro and small customers was 6,791, with a weighted average loan interest rate of 6.54%.

In order to better meet the financing requirements of micro and small enterprises, we accelerate the construction of Huirongtong Small Micro Loan Center, an institution specialized in serving micro and small enterprises, and enhance the application of internet fintech. Meanwhile, we fully leverage the PBoC’s policies and instruments such as relending to support development of micro and small enterprises, and rediscounting to intensify the financing supports for micro and small enterprises.

Management Discussion and Analysis

Retail Banking Business

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

As of June 30, 2021, we had 1,055,200 retail banking customers with total deposits of RMB48,363 million and total loans of RMB7,951 million.

We classify our retail customers into basic customers (with financial assets of less than RMB500,000), value customers (with financial assets of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with financial assets of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with financial assets exceeding RMB3,000,000). As of June 30, 2021, we had 5,339 high-end customers and 891 high-net-worth customers.

Retail deposits

The balance of retail deposits was RMB48,363 million, representing an increase of RMB6,581 million or 15.75% as compared to the end of the previous year. Particularly, the balance of demand deposits amounted to RMB8,084 million, representing an increase of RMB1,768 million or 27.98% as compared to the end of the previous year and accounting for 16.72% of the retail deposits.

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of June 30, 2021, the total retail loans were RMB7,951 million.

Bank cards

As of June 30, 2021, the number of historical accumulated cards issued to retail banking customers was 1,242,700 and the stock of cards was 1,055,000, representing an increase of 91,100 or 9.45% as compared to the end of the previous year.



Management Discussion and Analysis

Wealth management

We provide our customers with Jin Gui Hua series and Zhi Zun Dao series wealth management products based on their risk and return appetites. Our wealth management funds are mainly invested in assets such as debt securities and money market instruments.

In the first half of 2021, the total amount of the wealth management products sold by us was RMB4,029 million. As of June 30, 2021, we had 18,192 customers for our wealth management products, of which 18,170 are retail customers and 22 are institution customers, with a balance on current products of RMB4,754 million and the performance comparison benchmark of wealth management products ranging from 4.0% to 4.9%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of June 30, 2021, our agency sales of precious metal amounted to RMB1,450,300.

Financial market business

During the Reporting Period, in the face of complex changes in the macro environment, market environment and regulatory environment, the Bank pays close attention to macroeconomic changes, follows the trends of financial market policies, and enhances market analysis in order to seize market opportunities. Under the premise of strict risk control, the Bank rationally formulates investment strategies to optimize our investment portfolio, increases our bond investment in a more standardized manner and orderly reduces non-standardized SPV investment.

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

Money market transactions business

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

Management Discussion and Analysis

1. *Interbank deposits*

As of June 30, 2021, the balance of deposits from banks and other financial institutions was RMB4,580 million, representing a decrease of RMB522 million or 53.27% as compared to the end of the previous year, of which the balance of time deposits from banks was RMB320 million, representing a decrease of 63.01% as compared to the end of the previous year, and the balances of demand deposits from banks and settlement accounts were RMB138 million, representing an increase of 20.00% as compared to the end of the previous year. As of the same date, the balance of deposits with other banks was RMB1,027 million, representing a decrease of RMB71 million or 6.47% as compared to the end of the previous year, of which the balance of time deposits with other banks was RMB711 million, representing an increase of 137.00% as compared to the end of the previous year. The balances of demand deposits with other banks and settlement accounts were RMB316 million, representing a decrease of 60.40% as compared to the end of the previous year.

2. *Interbank lending*

As of June 30, 2021, the balance of our interbank placement was RMB3,595 million, representing a decrease of RMB195 million or 5.15% as compared to the end of the previous year. As of the same date, the balance of interbank lending was RMB213 million, the same as last year.

3. *Bond repurchase*

As of June 30, 2021, the balance of our positive repurchase was nil; the balance of counter repurchase was RMB1,103 million, representing a decrease of RMB2,560 million or 69.89% as compared to the end of the previous year.

4. *Bill rediscount*

As of June 30, 2021, we held rediscounted bills amount to RMB1,493 million, representing an increase of RMB30 million or 2.05% as compared to the end of the previous year.

5. *Issuance of interbank certificates of deposit*

As of June 30, 2021, the balance of our interbank certificates of deposit was RMB17,202 million, representing an increase of RMB3,167 million or 22.57% as compared to the end of the previous year, mainly due to our absorption of part of long-term liabilities through the issuance of interbank certificates of deposit.



Management Discussion and Analysis

Investment business

1. *Bond investment*

As of June 30, 2021, we adjusted the total amount and structure of bond investment according to the bond market conditions and our own needs of asset allocation. We actively increased the investment in treasury bonds, policy financial bonds and credit bonds, while the investment in debt securities issued by commercial banks was reduced. As at the end of the Reporting Period, our bond investment balance amounted to RMB32,186 million, representing an increase of RMB8,347 million or 35.02% as compared to the end of the previous year, among which, the balance of treasury bonds was RMB5,319 million, representing an increase of RMB3,420 million or 180.10% as compared to the end of the previous year. The balance of policy financial bonds was RMB6,400 million, representing an increase of RMB2,388 million or 59.53% as compared to the end of the previous year, and the balance of debt securities issued by local governments was RMB981 million, representing a decrease of RMB122 million or 11.06% as compared to the end of the previous year. The balance of credit bonds was RMB18,701 million, representing an increase of RMB3,184 million or 20.52% as compared to the end of the previous year. The balance of debt securities issued by commercial banks was RMB785 million, representing a decrease of RMB523 million or 39.98% as compared to the end of the previous year.

2. *SPV investment*

During the Reporting Period, we rationally formulated investment strategies to optimize our investment portfolio in accordance with the trends of financial markets. We increased the investment in public offering monetary funds, while orderly reducing the SPV investment such as bank wealth management products and trust investment plans. As of June 30, 2021, our SPV investment was RMB12,703 million, including RMB1,026 million for public offering bond funds, RMB1,364 million for public offering monetary funds, RMB6,097 million for trust plans, and RMB4,216 million for asset management plans. Our SPV investment decreased by RMB6,423 million or 33.58% as compared to the beginning of the year.

Management Discussion and Analysis

Financial Consumer Rights Protection

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we optimized organizational structure, reinforced our awareness of responsibility, gave full play to the legal entity's institutional advantages, improved the financial service capability by focusing on product and service design, supplemented by promotional and educational campaigns for the public and internal inspection, and comprehensively improved the overall level of our work on consumer rights protection.

1. **Establishing full-time organizations and strengthening organizational leadership**

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

2. **Improving institutional system and consolidating management foundation**

We combed the consumer rights protection system, established and improved a consumer rights protection system matching with our organizational structure and business development. During the Reporting Period, we organized and revised 11 systems related to consumer rights protection to provide system guarantee for the effective development of our work on consumer rights protection.

3. **Highlighting brand reputation and popularizing public education**

Adhering to the concept of “customer-orientated” and “service-creating value”, we provide “standardized, rigorous, honest and reliable” financial services to consumers to protect their rights. During the Reporting Period, we organized and carried out a series of more than 14 activities, such as “3.15 Financial Consumer Rights Day”, “Publicity on Deposit Insurance”, “Publicity on Prevention of Telecommunication Fraud”, “Publicity on ‘card cutting’ campaign”, “Specialized Publicity on Prevention of Illegal Fund Raising” and “Publicity on Financial Knowledge Promotion”, to enhance consumers' risk awareness.

4. **Enhancing the sense of responsibility and improving the level of consumer protection**

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and implement relevant industry standards and operating guidelines. During the Reporting Period, we deeply rooted the concept of consumer protection in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

During the Reporting Period, the Bank's share capital remained unchanged. As of the end of the Reporting Period, the total issued share capital of the Bank was 2,264,793,385 Shares, consisting of 627,600,000 H Shares and 1,637,193,385 Domestic Shares.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	January 1, 2021		Increase (decrease) during the Reporting Period	June 30, 2021	
	Quantity	Percentage		Quantity	Percentage
Total share capital	2,264,793,385	100.00	0	2,264,793,385	100.00
Domestic Shares held by legal person	1,593,116,644	70.34	0	1,593,116,644	70.34
Domestic Shares held by natural person	44,076,741	1.95	0	44,076,741	1.95
H Shares	627,600,000	27.71	0	627,600,000	27.71

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

The Bank did not purchase, sell or redeem any listed securities of the Bank during the Reporting Period.

IV. DETAILS OF SHAREHOLDERS

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

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

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

Unit: Share

No.	Name of Shareholder	Number of Shares held	Shareholding percentage
1	Luzhou Laojiao Group Co., Ltd.	325,440,000	14.37%
2	Sichuan Jiale Enterprise Group Co., Ltd.	271,200,000	11.97%
3	Luzhou Xinfu Mining Industry Group Co., Ltd.	271,200,000	11.97%
4	Luzhou Municipal Finance Bureau	161,544,800	7.13%
5	Luzhou State-owned Assets Operation Co., Ltd.	144,640,000	6.39%
6	Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,715,862	4.05%
7	Chengdu Modern Agricultural Development Investment Co., Ltd.	81,043,600	3.58%
8	Luzhou Industrial Development Investment Group Co., Ltd.	73,462,268	3.24%
9	Luzhou Xinglu Investment Group Co., Ltd.	40,549,462	1.79%
10	Luzhou Laojiao Co., Ltd.	36,160,000	1.60%

Changes in Share Capital and Information on Shareholders

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

To the knowledge of the Directors or chief executive of the Bank, as at June 30, 2021, interests and short positions of the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司) ⁽¹⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	325,440,000	-	15.97%	22.09%
		Domestic Shares	Long Position	36,160,000	-		
				361,600,000			
Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司) ⁽²⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
		Domestic Shares	Long Position	7,232,000	-		
				278,432,000		12.29%	17.01%
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest in spouse	Domestic Shares	Long Position	278,432,000	-	12.29%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Beneficial owner	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
		Domestic Shares	Long Position	271,200,000	-		
				271,200,000		11.97%	16.56%
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	271,200,000	-	11.97%	16.56%
Luzhou Industrial Development Investment Group Co., Ltd. (瀘州產業發展投資集團有限公司) ⁽⁴⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	73,462,268	-	9.63%	13.32%
		Domestic Shares	Long Position	144,640,000	-		
				218,102,268			
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司) ⁽⁵⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	40,549,462	-	8.60%	11.89%
		Domestic Shares	Long Position	154,128,384	-		
				194,677,846			

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Chengdu Dongfang Guangyi Investment Co., Ltd. (成都東方廣益投資有限公司) ⁽⁶⁾	Beneficial owner	H Shares	Long Position	180,000,000	-	7.95%	28.68%
Luzhou Municipal Finance Bureau (瀘州市財政局)	Beneficial owner	Domestic Shares	Long Position	161,544,800	-	7.13%	9.87%
Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Beneficial owner	Domestic Shares	Long Position	144,640,000	-	6.39%	8.83%
OTX ADVISORY HOLDINGS, INC. ⁽⁷⁾	Beneficial owner	H Shares	Long Position	113,060,000	-	4.99%	18.01%
LUO Zhipeng (羅志鵬) ⁽⁷⁾	Interest in controlled corporation	H Shares	Long Position	113,060,000	-	4.99%	18.01%
Wudaokou Capital Limited (五道口資本有限公司) ⁽⁸⁾	Beneficial owner	H Shares	Long Position	112,011,000	-	4.95%	17.85%
ZHOU Min (周敏) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long Position	112,011,000	-	4.95%	17.85%
JNR SPC	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%
JNR Capital ⁽⁹⁾	Beneficial owner	H Shares	Long Position	111,291,000	-	4.91%	17.73%
ZHENG Zhicheng (鄭志誠) ⁽⁹⁾	Interest in controlled corporation	H Shares	Long Position	111,291,000	-	4.91%	17.73%
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) ⁽¹⁰⁾	Beneficial owner	Domestic Shares	Long Position	15,006,400	-		
	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-		
				106,722,262		4.71%	6.52%
Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司)	Beneficial owner	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽¹⁰⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
China Development Fund Co., Ltd. (國開發展基金有限公司) ⁽¹⁰⁾	Interest in controlled corporation	Domestic Shares	Long Position	91,715,862	-	4.05%	5.60%
Luzhou High-tech Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	Beneficial owner	H Shares	Long Position	100,000,000	-	4.42%	15.93%
Luzhou Liquor Investment Co., Ltd. (瀘州酒業投資有限公司)	Beneficial owner	H Shares	Long Position	60,000,000	-	2.65%	9.56%

Changes in Share Capital and Information on Shareholders

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly-owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 325,440,000 Domestic Shares and indirectly held 36,160,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co. Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.
- (2) Mr. XIONG Guoming (熊國銘) and Ms. JIANG Xiaoying hold 80% and 20% equity interest in Sichuan Jiale Enterprise Group Co., Ltd., respectively. Sichuan Jiale Enterprise Group Co., Ltd. directly held 271,200,000 Domestic Shares and indirectly held 7,232,000 Domestic Shares through its indirectly owned subsidiary, Sichuan Luzhou Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Sichuan Luzhou Jiale Real Estate Co., Ltd., and Sichuan Jiale Enterprise Group Co., Ltd. had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd. By virtue of the SFO, Sichuan Jiale Enterprise Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Sichuan Luzhou Jiale Real Estate Co., Ltd. Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Jiale Enterprise Group Co., Ltd. and Sichuan Luzhou Jiale Real Estate Co., Ltd. for the purpose of the SFO. Ms. JIANG Xiaoying is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong hold 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. hold 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Development Investment Group Co., Ltd. (formerly known as Luzhou Industrial Investment Group Co., Ltd.) directly held 73,462,268 Domestic Shares and indirectly held 144,640,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. By virtue of the SFO, Luzhou Industrial Development Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd.
- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 40,549,462 Domestic Shares and (i) indirectly held 91,715,862 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Real Estate Co., Ltd., in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 47% and 53% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 36,160,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 11,246,122 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 15,006,400 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.



Changes in Share Capital and Information on Shareholders

- (6) On November 24, 2020, a subscription agreement entered into between Chengdu Dongfang Guangyi Investment Co., Ltd. and the Bank pursuant to which Chengdu Dongfang Guangyi Investment Limited conditionally subscribed for 180,000,000 H shares of the Bank and its settlement is subject to prerequisite conditions or exemptions.
- (7) OTX ADVISORY HOLDINGS, INC. is wholly-owned by LUO Zhipeng. By virtue of the SFO, LUO Zhipeng is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.
- (8) Wudaokou Capital Limited is wholly-owned by ZHOU Min (周敏). By virtue of the SFO, ZHOU Min (周敏) is deemed to be interested in the H Shares held by Wudaokou Capital Limited.
- (9) JNR SPC is wholly-owned by JNR Capital, which is held as to approximately 66.67% equity interest by ZHENG Zhicheng (鄭志誠). By virtue of the SFO, both JNR Capital and ZHENG Zhicheng (鄭志誠) are deemed to be interested in the H Shares held by JNR SPC.
- (10) Luzhou Xinglu Jutai Real Estate Co., Ltd. is held as to 53% equity interest by Luzhou Xinglu Investment Group Co., Ltd. and as to 47% equity interest by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. hold approximately 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd.

Save as disclosed above, to the knowledge of the Directors, the Bank is not aware of any other person (other than a Director, Supervisor and chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as at June 30, 2021 which are required to be recorded in the register pursuant to section 336 of the SFO.

(III) Substantial Shareholders of the Bank

For information about the substantial Shareholders⁽¹⁾ of the Bank, please refer to the Related party relationships and Related party transactions under Note 37 to the Financial Statements of this annual report.

Note:

- (1) According to the Interim Measures for the Equity Management of Commercial Banks of CBIRC (CBRC Order 2018 No. 1), substantial shareholders of a commercial bank refer to shareholders who hold or control 5% or above shares or voting right of the commercial bank, or who hold less than 5% of total capital or total shares of the commercial bank but have significant impacts on the operation and management of the commercial bank. The significant impacts mentioned above include but are not limited to dispatching directors, supervisors or senior executives to a commercial bank.

Changes in Share Capital and Information on Shareholders

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

As of June 30, 2021, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares and debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register of interests kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

Interests in the Bank held by our Directors, Supervisors and chief executives							
Name	Position	Nature of interests	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (shares)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
XIONG Guoming (熊國銘) ⁽¹⁾	Non-executive Director	Interest in controlled corporations	Domestic Shares	Long position	334,118,400	12.29%	17.01%
LIU Shirong (劉仕榮) ⁽¹⁾	Executive Director	Beneficial owner	Domestic Shares	Long position	13,017	0.0005%	0.0007%
CHEN Yong (陳勇) ⁽¹⁾⁽²⁾	Supervisor	Interest of spouse	Domestic Shares	Long position	19,526	0.0007%	0.001%

Notes:

- (1) According to the 2020 profit distribution plan and capitalization issue plan considered and approved at the 2020 annual general meeting of the Bank, Mr. XIONG Guoming, Mr. LIU Shirong and Mr. CHEN Yong are deemed to be interested in the unissued Domestic Shares. For the calculation of the approximate percentage of the Shares interested in, the denominator is the number of the issued Shares together with the number of the Shares to be issued after the conversion of capital reserve into share capital.
- (2) The Domestic Shares are held by Ms. LAN Ying (蘭英), the spouse of Mr. CHEN Yong. Mr. CHEN Yong is deemed to be interested in the Domestic Shares held by Ms. LAN Ying under the SFO.

Save as disclosed above, as at June 30, 2021, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Bank pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.



Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(I) Directors

As of the Latest Practicable Date, the Board of the Bank consisted of eleven Directors, including two executive Directors, namely, Mr. YOU Jiang and Mr. LIU Shirong; four non-executive Directors, namely, Ms. PAN Lina, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei; and five independent non-executive Directors, namely, Mr. GU Mingan, Mr. HUANG Yongqing, Mr. YE Changqing, Mr. TANG Baoqi and Mr. ZHONG Jin, respectively.

The specific names and members of the six special committees under the Board are as follows:

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

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

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

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

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

Consumer rights protection committee: Mr. HUANG Yongqing (chairperson), Mr. LIU Shirong and Mr. LIU Qi

Directors, Supervisors, Senior Management and Employees

(II) Supervisors

As of the Latest Practicable Date, the Board of Supervisors of the Bank consisted of five Supervisors, including one Shareholders' representative Supervisor, namely Ms. YUAN Shihong; two external Supervisors, namely Mr. DUAN Xuebin and Mr. GUO Bing; and two employees' representative Supervisors, namely Ms. LIU Yongli and Mr. CHEN Yong.

(III) Senior Management

There are nine senior managements in the Bank, namely vice president (who also serves as acting president) and secretary of the Board Mr. LIU Shirong; vice president Ms. XIA Yilun; vice president Ms. XUE Xiaoqin; vice president Mr. WU Ji; vice president and chief information officer Mr. CHENG Anhua; vice president Mr. YANG Bing; vice president Mr. TONG Qiang; assistant to president Mr. AI Yong; and assistant to president and president of the key customers business department Mr. HU Jia.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

On May 13, 2021, Ms. LIU Anyuan tendered her resignation as a non-executive Director, a member of each of the audit committee and the consumer rights protection committee of the Board of the Bank due to her work re-designation. On June 7, 2021, Mr. XU Xianzhong tendered his resignation as an executive Director, the president and a member of the consumer rights protection committee of the Board of the Bank, as he would like to devote more time and attention to his other personal affairs. Please refer to the relevant announcements published by the Bank for details of the above changes.

2. Changes in Supervisors

During the Reporting Period, there were no changes in members of Supervisors.

3. Changes in Senior Management

During the Reporting Period, Mr. XU Xianzhong tendered his resignation as an executive Director, president and a member of the consumer rights protection committee of the Board, as he would like to devote more time and attention to his other personal affairs.

4. Changes in the Information of Directors, Supervisors and President

Ms. PAN Lina, a non-executive Director, has served as the executive director and general manager of Zizi Chuanwei Food Co., Ltd., a wholly-owned subsidiary of Luzhou Laojiao Group Co., Ltd. from April 2021.

On August 26, 2021, (1) Mr. ZHONG Jin, an independent non-executive Director, has been appointed as a member of the risk management committee of the Bank; and (2) Mr. LIU Shirong, an executive Director, has been appointed as a member of the consumer rights protection committee of the Bank.

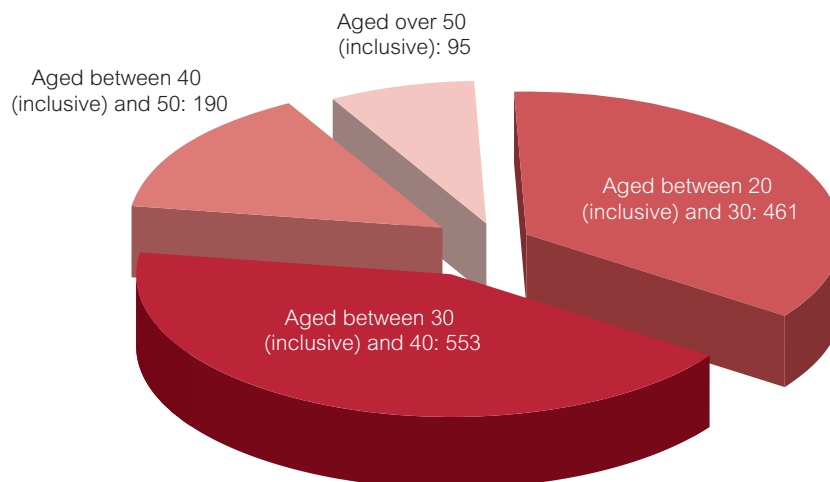
III. SECURITIES TRANSACTION BY DIRECTORS AND SUPERVISORS

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

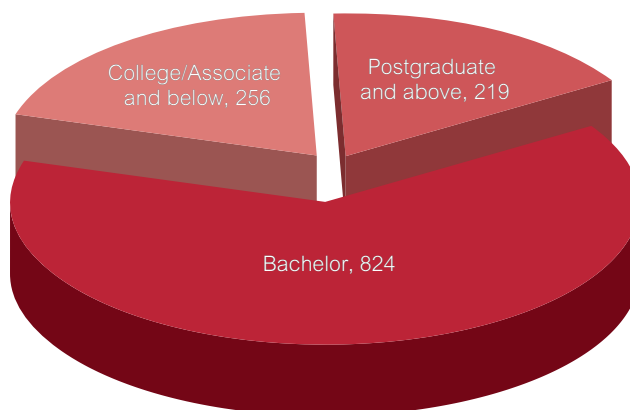
Directors, Supervisors, Senior Management and Employees

IV. DETAILS OF EMPLOYEES

As of June 30, 2021, the Bank had 1,299 employees (including dispatched workers) in total, with an average age of 33.9. Of them, 461 employees aged between 20 (inclusive) and 30, accounting for 35.49%; 553 employees aged between 30 (inclusive) and 40, accounting for 42.57%; 190 employees aged between 40 (inclusive) and 50, accounting for 14.63%; and 95 employees aged over 50 (inclusive), accounting for 7.31%.



By education background, the Bank had 219 employees with postgraduate degrees and above (including 3 doctoral candidates), accounting for 16.86%; 824 employees with bachelor degrees, accounting for 63.43%; 256 employees with college/associate degrees and below, accounting for 19.71%.



The Bank had a total of 135 technology talents, accounting for 10.39% of the employees of the Bank.

Directors, Supervisors, Senior Management and Employees

V. TRAINING FOR EMPLOYEES

According to the annual development strategy and based on the actual demand, the Bank forms special training plans and accurately improves the training results to provide strong talent support to the forward long-term development. During the Reporting Period, the Bank capitalized on multimedia learning tools to organize its employees to participate in international and domestic authoritative tests for certificates and conducted special line training on wealth management marketing and customer acquisition skills, interbank business, credit risk prevention and control, and internal control and compliance, as well as online and offline training for new campus-recruited employees. The total number of various internal and external training activities of the Bank reached approximately 60 and the number of participants reached approximately 3,373.

VI. REMUNERATION POLICIES FOR EMPLOYEES

We continued to adhere to the performance-oriented guidance, implemented a market-oriented performance appraisal mechanism based on post salaries and performance-based remuneration, and further strengthened market-oriented appraisal efforts to boost the supervision and inspection of the market-oriented performance appraisal of marketing institutions. As the performance-based remuneration of our staff was determined by their work performance, we continued to give full play to the incentive and guiding role of remuneration that went against the “waiting, reliance and demanding” behaviors of the staff, decreased mediocre and lazy staffs, mobilized working enthusiasm and activity of the staff, and improved the overall efficiency of the enterprise. The Bank maintained various social insurances and supplementary medical insurance and provident fund, and established enterprise annuity plan in accordance with the relevant laws to provide a comprehensive security system for its employees. In respect of payment of remuneration, the Bank had strictly complied with relevant regulatory requirements and deferred payment for middle and senior management and employees holding positions with material impact on risks.



Important Events

CORPORATE GOVERNANCE

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

During the Reporting Period, we had strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code. We are committed to maintaining a high standard of corporate governance.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION AND CAPITALIZATION ISSUE PLAN

The 2020 profit distribution plan and capitalization issue plan of the Bank were considered and approved at the 2020 annual general meeting held on June 8, 2021, so as to issue two new Shares for every 10 Shares by way of conversion of capital reserve to all Shareholders. The Bank will not distribute and does not propose to distribute any interim dividend for the six months ended June 30, 2021.

MATERIAL LITIGATIONS AND ARBITRATIONS

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

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

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

MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

REVIEW OF INTERIM RESULTS

The Bank’s interim financial information for 2021 (unaudited) prepared in accordance with International Financial Reporting Standards have been reviewed by PricewaterhouseCoopers, who has been providing audit service for the Bank since 2017, and has issued an unqualified review report.

The Bank’s 2021 interim report and 2021 interim financial information (unaudited) have been reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

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

SUBSEQUENT MATERIAL EVENTS

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





Report on Review of Interim Financial Information

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF LUZHOU BANK CO., LTD., *(incorporated in the People's Republic of China with limited liability)*

INTRODUCTION

We have reviewed the interim financial information set out on pages 59 to 138, which comprises the interim condensed statement of financial position of Luzhou Bank Co., Ltd. (the “Bank”) as at 30 June 2021 and the interim condensed statement of comprehensive income, the interim condensed statement of changes in equity and the interim condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2021

Interim Condensed Statement of Comprehensive Income

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

	Note	For the six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Interest income		3,449,542	3,039,977
Interest expenses		(1,946,602)	(1,565,904)
Net interest income	4	1,502,940	1,474,073
Fee and commission income		9,531	4,570
Fee and commission expenses		(4,473)	(2,320)
Net fee and commission income	5	5,058	2,250
Net gains on trading activities	6	36,747	77,951
Net gains on financial investments	7	118,544	77,882
Other operating income	8	7,067	12,119
Operating income		1,670,356	1,644,275
Operating expenses	9	(589,150)	(458,612)
Expected credit losses	10	(362,257)	(610,286)
Operating profit		718,949	575,377
Share of profit of an associate	20	2,171	2,626
Profit before income tax		721,120	578,003
Income tax expense	11	(157,356)	(128,888)
Net profit attributable to shareholders of the Bank		563,764	449,115
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value change of financial assets at fair value through other comprehensive income		27,345	(13,836)
Expected credit losses of financial assets at fair value through other comprehensive income		33,067	54,510
Less: Related income tax impact		(15,103)	(10,169)
Subtotal	35	45,309	30,505
Total comprehensive income attributable to the shareholders of the Bank		609,073	479,620
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)			
– basic and diluted	12	0.21	0.20

The accompanying notes form a part of this interim condensed financial information.

Interim Condensed Statement of Financial Position

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

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
ASSETS			
Cash and balances with central bank	13	10,354,728	10,490,071
Financial assets held under resale agreements, due from other banks and financial institutions	14	2,331,475	4,961,948
Customer loans	15	67,637,444	57,585,311
Financial investments – credit related financial assets	16	3,396,516	3,709,265
Financial investments – fair value through profit or loss	17	13,100,283	16,483,953
Financial investments – fair value through other comprehensive income	18	9,431,584	8,100,931
Financial investments – amortised cost	19	20,342,395	15,670,828
Investment in an associate	20	47,346	45,175
Property, plant and equipment	21	818,196	804,894
Deferred income tax assets	22	603,933	628,037
Other assets	23	326,472	405,846
Total assets		128,390,372	118,886,259
LIABILITIES			
Borrowings from central bank		2,348,964	2,371,331
Due to other banks and financial institutions	24	4,068,818	4,830,366
Customer deposits	25	89,939,304	85,223,104
Debt securities issued	26	21,781,342	16,598,490
Current tax liabilities		161,855	324,365
Other liabilities	27	627,167	589,654
Total liabilities		118,927,450	109,937,310
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	28	2,264,793	2,264,793
Other equity instruments	29	1,696,824	1,696,824
Capital surplus	28	2,239,314	2,239,314
Other reserves	30	2,187,647	1,750,824
Retained earnings		1,074,344	997,194
Total equity		9,462,922	8,948,949
Total liabilities and equity		128,390,372	118,886,259

The accompanying notes form a part of this interim condensed financial information.

Chairman and Executive Director:
You Jiang

Executive Director and Vice President:
Liu Shirong

Interim Condensed Statement of Changes in Equity

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

	Equity attributable to shareholders of the Bank								
	Share capital Note 28	Other equity instruments Note 29	Capital surplus Note 28	Other reserves			Subtotal	Retained earnings	Total
				Surplus reserve Note 30	General reserve Note 30	Revaluation reserve Note 30			
Balance at 1 January 2021	2,264,793	1,696,824	2,239,314	457,338	1,148,053	145,433	1,750,824	997,194	8,948,949
Net profit for the period	-	-	-	-	-	-	-	563,764	563,764
Changes recognised in other comprehensive income	-	-	-	-	-	45,309	45,309	-	45,309
Total comprehensive income	-	-	-	-	-	45,309	45,309	563,764	609,073
Transfer to general reserve	-	-	-	-	391,514	-	391,514	(391,514)	-
Interest on perpetual bonds	-	-	-	-	-	-	-	(95,100)	(95,100)
Balance at 30 June 2021	2,264,793	1,696,824	2,239,314	457,338	1,539,567	190,742	2,187,647	1,074,344	9,462,922
Balance at 1 January 2020	2,264,793	-	2,239,314	399,731	977,442	64,468	1,441,641	943,761	6,889,509
Net profit for the period	-	-	-	-	-	-	-	449,115	449,115
Changes recognised in other comprehensive income	-	-	-	-	-	30,505	30,505	-	30,505
Total comprehensive income	-	-	-	-	-	30,505	30,505	449,115	479,620
Capital contributions by other equity instruments holders (Note 29)	-	1,696,824	-	-	-	-	-	-	1,696,824
Transfer to general reserve	-	-	-	-	170,611	-	170,611	(170,611)	-
Cash dividends (Note 31)	-	-	-	-	-	-	-	(294,423)	(294,423)
Balance at 30 June 2020	2,264,793	1,696,824	2,239,314	399,731	1,148,053	94,973	1,642,757	927,842	8,771,530

The accompanying notes form a part of this interim condensed financial information.

Interim Condensed Statements of Cash Flows

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

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities:		
Profit before income tax	721,120	578,003
Adjustments:		
Depreciation and amortisation	78,375	68,915
Expected credit losses on customer loans	324,722	518,770
Impairment losses on other assets	37,535	91,516
Net gains on disposal of long-term assets	(325)	(878)
Net gains arising from derecognition of financial investments	(195,915)	(152,616)
Changes in fair value of financial assets at fair value through profit or loss	40,624	(3,217)
Interest income from financial investments	(999,207)	(1,166,269)
Interest expenses on debt securities	332,613	375,905
Subtotal	339,542	310,129
Net increase in operating assets:		
Net increase in balances with central bank	(1,216,792)	(196,863)
Net decrease/(increase) in financial assets held under resale agreements, due from banks and other financial institutions	2,559,704	(4,304,606)
Net increase in customer loans	(9,973,219)	(8,722,404)
Net decrease/(increase) in other operating assets	2,057,618	(4,116,968)
Net increase in operating liabilities:		
Net (decrease)/increase in balances due to central bank	(23,434)	10,112
Net (decrease)/increase in financial assets sold under repurchase agreements, due to banks and other financial institutions	(717,501)	1,425,016
Net increase in customer deposits	4,549,252	15,257,566
Net increase in other operating liabilities	266,803	324,234
Income tax paid	(406,966)	(243,416)
Net cash used in operating activities	(2,564,993)	(257,200)

Interim Condensed Statements of Cash Flows

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

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment, and other long-term assets	6,250	–
Purchase of property, plant and equipment, and other long-term assets	(52,774)	(64,069)
Interest income arising from financial investment securities	1,605,142	1,735,293
Purchase of investment securities	(29,266,938)	(21,839,480)
Proceeds from sale and redemption of financial investments	24,119,106	20,508,597
Net cash (used in)/from investing activities	(3,589,214)	340,341
Cash flows from financing activities:		
Proceeds from issuance of debt securities	15,161,476	8,880,000
Repayment of debt securities upon maturity	(9,994,760)	(10,246,563)
Interest paid on debt securities	(427,713)	(375,905)
Dividends paid to shareholders	(50)	(67)
Proceeds from issuance of other equity instruments	–	1,696,824
Net cash from/(used in) financing activities	4,738,953	(45,711)
Impact of exchange rate fluctuation on cash and cash equivalents	(7,649)	11,710
Net (decrease)/increase in cash and cash equivalents	(1,422,903)	49,140
Cash and cash equivalents at the beginning of the period	5,590,365	5,275,477
Cash and cash equivalents at the end of the period (Note 36)	4,167,462	5,324,617

The accompanying notes form a part of this interim condensed financial information.



Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

1 GENERAL INFORMATION

Luzhou Bank Co., Ltd. (the “Bank”), with the approval of the People’s Bank of China, was established on 15 September 1997 as a joint-stock commercial bank under the name of “Luzhou City United Bank” in accordance with the Company Law of China. The Bank was jointly sponsored by Luzhou Finance Bureau, the shareholders of eight urban credit cooperatives, two rural credit cooperatives and other new corporate shareholders.

On 8 May 1998, the Sichuan Branch of the People’s Bank of China approved the renaming of the Bank from “Luzhou City United Bank” to “Luzhou City Commercial Bank Co., Ltd.”. On 4 June 2019, in accordance with the approval of the Sichuan Supervisory Bureau of China Banking and Insurance Regulatory Commission (“CBIRC”) and the approval of Luzhou City Market Supervision and Administration Bureau, the Bank was formally renamed to “Luzhou Bank Co., Ltd.”. The Bank was listed on the main board of Stock Exchange of Hong Kong on 17 December 2018. As at 30 June 2021, the total issued share capital of the Bank is RMB 2,264,793,385 with a par value of RMB 1 per share.

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

This financial information was authorised for issue by the Board of Directors of the Bank on 26 August 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed financial information of the Bank has been prepared in accordance with the International Accounting Standard 34 ‘Interim Financial Reporting’.

The Bank adopted the going concern basis in preparing this interim condensed financial information.

The interim condensed financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2020.

Income tax expense for interim period is accrued using the expected tax rate that would be applicable to total annual earnings.

Except as described below, the Bank’s accounting policies applied in preparing this unaudited interim condensed financial information are consistent with those policies applied in preparing the 2020 annual financial statements.

The Bank’s structured entities (Note 32) are the Bank’s only consolidated subsidiaries and are already measured according to accounting policies applicable to financial instruments. So there is no difference between the Bank’s consolidated financial information and its standalone financial information.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards adopted by the Bank

A number of new or amended standards became applicable for the current reporting period. The adoption of the new IFRSs and amendments to IFRSs did not have a material impact on the Bank's operating results, financial position or other comprehensive income. The Bank did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2.1.2 Impact of standards issued but not yet applied by the Bank

There are no standards issued but not yet effective that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim condensed financial information requires management to make judgements, estimates and assumptions.

In preparing this interim condensed financial information, the significant judgements and estimates made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2020.

3 FINANCIAL RISK MANAGEMENT

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

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

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Changes in the economy or those in credit quality of a particular industry segment or concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from customer loans, debt securities and due from banks and other financial institutions. There are also credit risk exposures in off-balance sheet financial arrangements such as loan commitments, guarantees, acceptances and letters of credit.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3.1.1 Credit risk measurement

(a) Credit business

The Bank measures and manages the quality of its credit assets in accordance with the CBIRC's Guidelines of Risk Classification of Loans and Guidelines of Risk Classification of Micro Enterprises loans (Trial Implementation). The classification of loans is based on the borrowers' repayment ability, payment history, willing of repayment, guarantee of loans, legal responsibility and loan administration. The Guidelines of Risk Classification of Loans require financial institutions to classify their credit assets into five categories, namely pass, special mention, substandard, doubtful and loss, of which the last three categories are non-performing loans. The Bank monitors the overdue status of its loans to retail customers in managing credit risk.

The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Pass: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments, but there may be some potential issues that could have adverse impact on the future payments.

Substandard: The borrower's repayment ability has been impaired and their normal income cannot repay the loan principal plus interest in full. Even with execution of guarantee, there may be certain level of loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantee, there will be a significant loss.

Loss: After taking consideration of all possible recovery actions or all necessary legal proceedings, the future outcome of recovery is likely to be little or nil.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

(a) Credit business (continued)

Risk Management Department coordinates the classification of loans. The classification of loans is performed comprehensively on a quarterly basis and adjusted timely on a monthly basis. The responsible departments perform initial classification, after which Credit Management Department, Key Customers Business Department, Chengdu Branch and Huirongtong Small Micro Loan Center perform initial review on the classifications proposed by respective departments. Risk Management Department summarises the classification information reviewed by the related departments, conducts secondary review and reports the classification results and all relevant information to risk management committee for final approval. The classification of loans is monitored and adjusted through credit management system.

(b) Financial market business

For treasury business (including debt investments), the Bank chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Bank approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, unified credit authorisation management is used by the Bank when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Bank are subject to the credit granting review and approval of the Bank and credit limits are placed on such issuers. The Bank regards the external credit ratings of the bonds invested as a necessary content of bond credit risk management to manage the credit risk exposures.

Debt investments other than debt securities include investments in banks, fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. The Bank implements a rating system for accepting trust companies securities companies and fund companies, sets credit limits for ultimate borrowers of trust plans, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

The Bank manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

(a) Credit business

The Bank takes the same credit risk management control procedure for on and off-balance sheet risk exposures. The risk control procedure of the Bank's credit risk includes the following: credit policy stipulation, pre-credit investigation, risk assessment, collateral assessment, examination and approval of credit loans, draw-down, post-loan management, management on non-performing loans, due-diligence on non-performing loans.

The Bank has established a mechanism of risk warning for credit business, mainly including single customer credit risk and systematic risk. Unified credit authorisation management is implemented for key customers. Once the maximum exposure of a single customer is determined, the customer's exposure should not exceed its credit limit in the Bank at any time before it obtains new credit limit.

The Bank takes action to strengthen controls over credit risk in relation to group customers and related party customers. The Bank places limits in relation to key group customers to control credit risk. The committee of related party transactions is set up under the Board to manage controls on related party transaction.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice.

Except for few customers with excellent quality, the Bank requires the borrowers to provide credit enhancements for loans. The types of credit enhancements mainly include collateral, pledge and guarantee. The Bank employs property appraisal companies with qualifications to evaluate the collateral. The detailed collateral type and amount is determined by credit risk of counterparty or customers.

The Bank employs a range of asset evaluation companies to value the collaterals. The Bank generally accepts assets whose value are clear as collaterals, such as deposit receipt and real estate.

(b) Financial market business

The Bank manages financial market business with hierarchical authorisation from department heads to the president for different business types such as purchase, distribution, trade and repurchase of debt securities.

The Bank sets stop-loss point based on analysis of trend of macroeconomic situation and monetary policy. The Bank places limits for inter-bank borrowing and lending. The Bank manages the credit risk exposures of inter-bank borrowing and lending strictly within the limit of regulation and credit authorisation.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(b) Financial market business (continued)

The debt securities traders regularly review and monitor the changes of market interest and report the market value of debt securities to Risk Management Department. If there is any volatility of interest rate in the market or any significant credit risk encountered to debtors, the business department responsible for security investment will ask for Risk Management Department of head office to conclude an emergency plan. The debt trader will react according to the plan.

3.1.3 Collateral and guarantee

The Bank has a range of policies and practices intended to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collateral. The maximum loan-to-value ratio is determined by the credit business department. The follow-up management of the collateral is carried out by the related business management department. The principal types of collateral for corporate loans and personal loans are as follows:

Type of Collateral	Maximum loan-to-value ratio
Collaterals	
Residential and commercial properties	60%
Land use rights for commercial, residential and comprehensive use	50%
Land use rights for industrial use	40%
Plants, workshops and factories or office and warehouse in non-urban area	40%
Forestry, trees and woodland usage rights	40%
Construction in progress	50%
Pledges	
Security deposits and certificates of deposit (including electronic certificates of deposits) issued by the Bank	100%
Certificates of deposit issued by other banks	90%
Treasury bonds, bank cheques and bank acceptance bills	90%
Commercial acceptance bills	80%
Debt securities issued by corporations with rating of AA or above	50%
Shares and equities	50%
Warehouse receipts and bills of lading	50%
Receivables	50%
Property right from intellectual properties rights including patents and copyrights	30%

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Collateral and guarantee (continued)

Mortgage loans to retail customers are generally collateralised by residential properties. Other loans are collateralised according to the nature of the loan.

For loans guaranteed by a third-party guarantor, the Bank will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than customer loans is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Details of collateral accepted and which the Bank is obligated to return are disclosed in Note 34.

3.1.4 Measurement of expected credit losses

In accordance with IFRS 9, the Bank classified the financial instruments into three stages. Stage 1 includes performing financial instruments that are "not credit-impaired on initial recognition". 12-month expected credit losses ("ECL") are recognized and calculated for those financial instruments in stage 1. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition and stage 3 includes credit-impaired financial assets. ECL for the entire life cycle are recognized for those financial instruments in stage 2 and stage 3.

3-stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. For financial instruments, that are "not credit-impaired on initial recognition" will be classified in stage 1 and calculate the 12-month ECL. If "a significant increase in credit risk" is identified, the financial instrument will be moved to stage 2 and calculate the lifetime ECL. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The detailed classification criteria have been set up, and take into consideration of overdue days, etc.

The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increase, they will be transferred to stage 2.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(1) *Financial assets with significant increase in credit risk*

When triggering one or more of the following quantitative or qualitative criteria, the Bank considers that the credit risk of financial instruments has increased significantly.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 30 days, but less than 90 days.
- The debtor's external credit rating (bond rating or issuer rating) has downgraded below BBB.

Qualitative criteria

- Changes in the economic, technological or legal environment in which the debtor is operating in at the present time or in the near future, thereby adversely affecting the debtor.
- The debtor has violated the terms of the contract, such as overdue payment of interest or principal or default.

(2) *Definition of default and loss incurred*

When a financial instrument meets one or more of the following conditions, the Bank considers the financial asset as being defaulted, and the criteria are consistent with the definition of loss incurred.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 90 days.
- The debtor's external credit rating (bond rating or issuer rating) is C.

Qualitative criteria

- The debtor is likely to go bankrupt or carry out other financial restructuring.
- The issuer of financial instruments assets held by the Bank has serious financial difficulties.
- The Bank has made concessions to the debtor in financial difficulty for economic or legal reasons.
- The market of related financial instruments is deserted due to the debtor's financial difficulty.
- It is becoming probable that the obligor will enter bankruptcy.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(2) *Definition of default and loss incurred (continued)*

The above criteria apply to all financial instruments of the Bank; the definition of default is consistently applied to the calculation of expected credit losses of the Bank, including default probability (PD), exposure at default (EAD) and loss given default (LGD) modelling.

When a financial instrument does not meet any definition of default for six consecutive months, the Bank no longer regards it as an asset in default (reversal). According to the relevant analysis, the Bank has considered the possibility that the financial instruments will be in default again from the reversal under various circumstances, and decided to adopt the six-month observation period.

(3) *Measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques*

Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the loss provision for different assets by expected credit losses for 12 months or entire life of the asset. Expected credit loss is the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD) after term adjustment and discount. Related definitions are as follows:

Probability of default (PD) refers to the possibility that the borrower will not be able to fulfil his obligations in the next 12 months or throughout the remaining period of existence. The Bank builds the migration matrix based on historical data to calculate the 12-month probability of default, and derives the default probability of the entire duration from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty and the availability of collateral or other credit support.

Exposure at default (EAD) refers to the amount that the Bank should pay when the default occurs in the next 12 months or throughout the remaining life. The Bank's exposure at default is determined by the expected repayment arrangements, and different types of products will vary. For instalments and one-time repayments, the Bank determines the exposure at default according to the repayment plan stipulated in the contract.

The Bank determines the expected credit losses by forecasting the probability of default, loss given default and exposure at default of single debt. The Bank multiplies the three items. This approach can effectively calculate the expected credit losses for future periods, and then discount the results of each period to the report date and add up. The discount rate used in the calculation of expected credit loss is the effective interest rate or its approximate value.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(4) *Establishment of impairment model*

The Bank has established macro-economic forecast model, along with adjustments from external economic experts. The Bank conducts forecasts regularly and establishes three possible economic scenarios, optimistic, basic and pessimistic. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than basic scenario respectively.

The impairment model is established through a top-down approach. The Bank has developed several corporate and retail impairment models, including regression models for different macro-economic indicators such as Macro-economic Climate Index, Enterprise Climate Index, National Housing Climate Index and the Ratio of Non-performing Loans of Commercial Banks etc. and use MERTON formula and historical default information to make “forward-looking” adjustments to probability of default to achieve “forward-looking” calculation of provision.

For asset portfolios that impairment model cannot be established, for example, customers’ default rate is extremely low or assets without an appropriate internal rating method, the Bank mainly applies expected loss rate from similar portfolios which regression model have been established so as to increase coverage range of existing impairment models.

(a) *Forwarding-looking information included in ECL model*

The calculation of expected credit losses involves forward-looking information. The Bank identifies the key economic indicators affecting the credit risk and expected credit loss of each asset portfolio, through historical data analysis.

Scope	
Macro-economic Climate Index	Corporate loans, discounted bills, retail loans, financial investments – credit related financial assets, off-balance sheet business
National Housing Climate Index	Retail loans

These economic indicators and their impact on PD depend on different financial instruments, which involve expert judgments. The Bank annually makes forecasts on these economic indicators (“basic economic scenarios”) and provides the best estimation of the economics for the next two years. The Bank believes that the economic indicators from two years later to the end of the maturity of financial instruments tend to maintain average or average growth for a long time in the following period through the mean regression method. The impact of these economical variables on the PD has been determined by performing MERTON model analysis to understand the impact of historical changes on PD, EAD and LGD.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(4) *Establishment of impairment model* (continued)

(a) *Forwarding-looking information included in ECL model* (continued)

As at 30 June 2021, the significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including “Optimistic scenario”, “Basic scenario”, and “Pessimistic scenario”, which are applicable to the Bank. The weighting of “Basic scenario” adopted by the Bank overweights the aggregated weightings of other scenarios.

Similar to other economic predictions, there is inherent uncertainty to the prediction and estimation of probability. Therefore, the actual results may significantly differ from the prediction. The Bank believes that these predictions reflect the best estimation of possible outcomes, and the chosen scenarios can represent possible scenarios appropriately.

3.1.5 Maximum exposure to credit risk

(a) *Maximum exposure to credit risk – Financial instruments subject to impairment*

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

	As at 30 June 2021			Total
	Stage 1	Stage 2	Stage 3	
Assets				
Balances with central bank	10,271,404	–	–	10,271,404
Financial assets held under resale agreements, due from other banks and financial institutions	2,331,475	–	–	2,331,475
Customer loans	67,096,138	330,047	211,259	67,637,444
Financial investments – credit related financial assets	2,877,061	519,455	–	3,396,516
Financial investments – fair value through other comprehensive income	9,431,584	–	–	9,431,584
Financial investments – amortised cost	20,028,355	233,793	80,247	20,342,395
Other financial assets	171,635	–	–	171,635
Subtotal	112,207,652	1,083,295	291,506	113,582,453
Off balance sheet guarantees and commitments	4,031,431	–	–	4,031,431

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk (continued)

(a) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at 31 December 2020			Total
	Stage 1	Stage 2	Stage 3	
Assets				
Balances with central bank	10,410,431	–	–	10,410,431
Financial assets held under resale agreements, due from other banks and financial institutions	4,961,948	–	–	4,961,948
Customer loans	56,502,571	419,528	663,212	57,585,311
Financial investments – credit related financial assets	3,211,844	497,421	–	3,709,265
Financial investments – fair value through other comprehensive income	8,100,931	–	–	8,100,931
Financial investments – amortised cost	15,347,948	244,553	78,327	15,670,828
Other financial assets	186,540	–	–	186,540
Subtotal	98,722,213	1,161,502	741,539	100,625,254
Off balance sheet guarantees and commitments				
	3,885,869	–	–	3,885,869

(b) Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	As at 30 June 2021	As at 31 December 2020
Financial investments – fair value through profit or loss		
– Bond investments	10,550,781	8,401,872
– Trust plans	91,917	–
– Wealth management products purchased from financial institutions	–	6,104,208
– Joint-investment projects	–	30,051
– Fund investments	2,389,204	1,934,772
Total	13,031,902	16,470,903

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For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans

	As at 30 June 2021			Total
	Corporate loans	Personal loans	Discounted bills	
Stage 1	55,217,551	7,744,379	5,336,479	68,298,409
Stage 2	385,406	62,494	–	447,900
Stage 3	436,094	143,692	–	579,786
Total	56,039,051	7,950,565	5,336,479	69,326,095
Add: Accrued Interest	199,983	25,103	–	225,086
Less: ECL allowance	(1,675,195)	(238,542)	–	(1,913,737)
Net amount	54,563,839	7,737,126	5,336,479	67,637,444

	As at 31 December 2020			Total
	Corporate loans	Personal loans	Discounted bills	
Stage 1	45,176,538	7,516,912	4,778,348	57,471,798
Stage 2	390,212	133,301	–	523,513
Stage 3	1,283,350	74,216	–	1,357,566
Total	46,850,100	7,724,429	4,778,348	59,352,877
Add: Accrued Interest	222,309	48,530	–	270,839
Less: ECL allowance	(1,857,286)	(181,119)	–	(2,038,405)
Net amount	45,215,123	7,591,840	4,778,348	57,585,311

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(a) Stage-3 loans

As at 30 June 2021	Collateralised loans				Non-collateralised loans			
	Credit-impaired assets (Stage 3)	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Customer loans								
- Corporate loans	243,885	(173,853)	70,032	70,277	192,209	(131,713)	60,496	
- Retail loans	99,044	(64,086)	34,958	61,567	44,648	(33,320)	11,328	
Total	342,929	(237,939)	104,990	131,844	236,857	(165,033)	71,824	

As at 31 December 2020	Collateralised loans				Non-collateralised loans			
	Credit-impaired assets (Stage 3)	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held	Gross exposure	Impairment allowance	Carrying amount
Customer loans								
- Corporate loans	199,410	(152,846)	46,564	65,688	1,083,940	(549,958)	533,982	
- Retail loans	45,199	(26,538)	18,661	35,992	29,017	(21,462)	7,555	
Total	244,609	(179,384)	65,225	101,680	1,112,957	(571,420)	541,537	

The amount of the fair value of the collaterals are limited to the credit risk exposure of each loan and advance payment secured.

The fair value of collaterals is estimated based on the latest available external valuations, the realisation experience of the current collaterals and the market conditions.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(b) Restructured customer loans

Restructuring activities include approved debt repayment plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue to be made. These policies are under regular review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans.

	As at 30 June 2021	As at 31 December 2020
Restructured customer loans	199,708	390,145

(c) Overdue customer loans by security and overdue date

	As at 30 June 2021				Total
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	
Collateralised loans	99,691	65,967	212,180	1,004	378,842
Guaranteed loans	53,610	41,070	41,029	–	135,709
Unsecured loans	17,948	26,972	15,137	63	60,120
Pledged loans	6,254	306	–	–	6,560
Total	177,503	134,315	268,346	1,067	581,231

	As at 31 December 2020				Total
	Overdue up to 90 days	Overdue 90 days – 1 year	Overdue 1 – 3 years	Overdue over 3 years	
Collateralised loans	110,404	30,385	193,473	1,251	335,513
Guaranteed loans	419,479	305,523	36,174	–	761,176
Unsecured loans	11,018	21,792	5,805	71	38,686
Pledged loans	12,003	348	–	–	12,351
Total	552,904	358,048	235,452	1,322	1,147,726

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(d) Industry analysis

Concentration risks analysis for customer loans (gross) by industry sectors:

	As at 30 June 2021		As at 31 December 2020	
	Amount	%	Amount	%
Corporate loans				
Leasing and commercial services	21,619,739	31.09	18,232,413	30.58
Construction	10,802,533	15.54	8,649,466	14.51
Real estate	9,519,192	13.70	6,883,760	11.55
Wholesale and retail trade	3,408,214	4.90	3,274,977	5.49
Manufacturing	2,384,961	3.43	2,753,852	4.62
Administration of water conservancy, environment and public facilities	1,978,435	2.84	1,825,815	3.06
Education	1,502,900	2.16	1,277,300	2.14
Financial	1,159,370	1.67	198,000	0.33
Accommodation and catering	881,763	1.27	967,016	1.62
Health and social work	842,950	1.21	837,250	1.40
Information transmission, software and information technology services	572,630	0.82	600,130	1.01
Agriculture, forestry, animal husbandry and fishery	542,519	0.78	522,102	0.88
Electricity, heat, gas and water production and supply	336,530	0.48	276,300	0.46
Transportation, warehousing and postage service	143,969	0.21	213,019	0.36
Scientific research and technology services	116,760	0.17	105,500	0.18
Household services, repairs and other services	100,100	0.14	80,000	0.13
Culture, sports and entertainment	67,900	0.10	110,900	0.19
Mining	58,586	0.08	42,300	0.07
Total corporate loans	56,039,051	80.59	46,850,100	78.58
Personal business loans	4,454,326	6.40	4,516,094	7.58
Residential mortgage loans	2,387,285	3.43	2,118,017	3.55
Personal consumption loans	1,108,954	1.59	1,090,318	1.83
Total personal loans	7,950,565	11.42	7,724,429	12.96
Discounted bills	5,336,479	7.67	4,778,348	8.01
Accrued Interest	225,086	0.32	270,839	0.45
Total customer loans excluding ECL allowance	69,551,181	100.00	59,623,716	100.00

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For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(e) Type of collateral analysis

Analysis for customer loans (gross) by type of collateral:

	As at 30 June 2021	As at 31 December 2020
Guaranteed loans	28,007,926	25,007,860
Collateralised loans	20,809,575	18,056,487
Pledged loans	12,738,988	10,530,758
Unsecured loans	7,769,606	5,757,772
Accrued interest	225,086	270,839
Total	69,551,181	59,623,716

3.1.7 Investment securities

As at 30 June 2021 and 31 December 2020, RMB securities are rated by major domestic rating agencies.

The rating results of investment securities as following:

As at 30 June 2021	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	2,410,427	554,629	672,202	-	3,637,258
AA- to AA+	3,279,707	1,516,730	271,052	-	5,067,489
Unrated ^(a)	7,341,768	7,099,931	19,543,289	3,560,350	37,545,338
Less: expected credit impairment provision	-	-	(489,789)	(246,520)	(736,309)
Accrued interest	-	260,294	345,641	82,686	688,621
Total	13,031,902	9,431,584	20,342,395	3,396,516	46,202,397

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

(a) Unrated securities

As at 30 June 2021	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	-	-	960,461	-	960,461
Government bonds	-	1,327,323	3,955,203	-	5,282,526
Policy bank bonds	-	1,388,072	4,907,184	-	6,295,256
Certificates of deposit	-	385,510	-	-	385,510
Private placement notes	1,485,287	740,410	780,000	-	3,005,697
Funds	2,389,204	-	-	-	2,389,204
Industry funds (Senior tranche)	-	-	400,000	-	400,000
Privately raised company bonds	3,375,360	3,258,616	7,454,441	-	14,088,417
Trust plans	91,917	-	1,086,000	3,560,350	4,738,267
Total	7,341,768	7,099,931	19,543,289	3,560,350	37,545,338

As at 31 December 2020	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
RMB securities					
AAA	1,167,545	149,567	759,918	-	2,077,030
AA- to AA+	2,814,860	1,503,748	121,973	-	4,440,581
Unrated ^(a)	12,488,498	6,262,529	15,008,941	3,896,600	37,656,568
Less: expected credit impairment provision	-	-	(474,942)	(246,649)	(721,591)
Accrued Interest	-	185,087	254,938	59,314	499,339
Total	16,470,903	8,100,931	15,670,828	3,709,265	43,951,927

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For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

(a) Unrated securities (continued)

As at 30 June 2021	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	–	–	1,083,261	–	1,083,261
Government bonds	–	841,541	1,041,338	–	1,882,879
Policy bank bonds	–	765,853	3,144,223	–	3,910,076
Certificates of deposit	–	972,261	–	–	972,261
Private placement notes	848,172	688,924	780,000	–	2,317,096
Funds	1,934,772	–	–	–	1,934,772
Joint-investment projects	30,051	–	–	–	30,051
Wealth management products purchased from financial institutions	6,104,208	–	–	–	6,104,208
Industry funds (Senior tranche)	–	–	400,000	–	400,000
Privately raised company bonds	3,571,295	2,993,950	7,474,119	–	14,039,364
Trust plans	–	–	1,086,000	3,896,600	4,982,600
Total	12,488,498	6,262,529	15,008,941	3,896,600	37,656,568

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For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

Financial investments – amortised cost are summarised as follows:

	As at 30 June 2021	As at 31 December 2020
Stage 1	19,902,930	15,290,832
Stage 2	333,613	350,000
Stage 3	250,000	250,000
Less: ECL allowance	(489,789)	(474,942)
Add: Accrued interest	345,641	254,938
Net amount	20,342,395	15,670,828

Financial investments – credit related financial assets are summarised as follows:

	As at 30 June 2021	As at 31 December 2020
Stage 1	2,922,000	3,258,250
Stage 2	638,350	638,350
Less: ECL allowance	(246,520)	(246,649)
Add: Accrued Interest	82,686	59,314
Net amount	3,396,516	3,709,265

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For the six months ended 30 June 2021
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

Concentration risks analysis for financial investments – credit related financial assets by industry sectors:

	As at 30 June 2021		As at 31 December 2020	
	amount	%	amount	%
Leasing and commercial services	1,505,850	41.33	1,764,350	44.60
Agriculture, forestry, animal husbandry and fishery	1,000,000	27.45	1,000,000	25.28
Construction	607,000	16.66	616,000	15.57
Real estate	260,000	7.14	310,000	7.84
Administration of water conservancy, environment and public facilities	187,500	5.15	206,250	5.21
Add: Accrued interest	82,686	2.27	59,314	1.50
Total	3,643,036	100.00	3,955,914	100.00

3.1.8 Foreclosed assets

	As at 30 June 2021	As at 31 December 2020
Business properties	30,152	48,300
Provision for foreclosed assets	(13,329)	(15,855)
Total	16,823	32,445

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are classified in the statement of financial position as other assets.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

The Bank's geographical risk is primarily concentrated in Mainland China.

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4 NET INTEREST INCOME

	For the six months ended 30 June	
	2021	2020
Interest income		
Balances with central bank	57,051	48,297
Financial assets held under resale agreements, due from other banks and financial institutions	62,571	55,063
Customer loans	2,330,713	1,811,745
Financial investments – credit related financial assets	136,628	175,663
Financial investments	862,579	949,209
Subtotal	3,449,542	3,039,977
Including: Interest income from impaired financial assets	6,664	12,230
Interest expenses		
Due to central bank	(20,974)	(6,948)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(79,535)	(96,276)
Customer deposits	(1,511,906)	(1,085,821)
Debt securities issued	(332,613)	(375,905)
Others	(1,574)	(954)
Subtotal	(1,946,602)	(1,565,904)
Net interest income	1,502,940	1,474,073

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For the six months ended 30 June 2021
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5 NET FEE AND COMMISSION INCOME

	For the six months ended 30 June	
	2021	2020
Fee and commission income		
Commission income from settlement services	1,216	779
Commission income from bank card services	1,018	868
Commission income from agency services	853	541
Commission income from guarantees and credit commitments	2,850	1,147
Commission income from wealth management agency services	3,565	399
Commission income from investment banking services	–	817
Other commission income	29	19
Total	9,531	4,570
Fee and commission expenses	(4,473)	(2,320)
Net fee and commission income	5,058	2,250

6 NET GAINS ON TRADING ACTIVITIES

	For the six months ended 30 June	
	2021	2020
Debt securities	44,396	78,731
Foreign exchange losses	(7,649)	(780)
Total	36,747	77,951

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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7 NET GAINS ON FINANCIAL INVESTMENTS

	For the six months ended 30 June	
	2021	2020
Net gains arising from de-recognition of FVOCI	5,583	64,106
Net gains of financial investments at FVPL	112,961	13,776
Total	118,544	77,882

8 OTHER OPERATING INCOME

	For the six months ended 30 June	
	2021	2020
Net gains on disposal of non-current assets	325	878
Incentive and subsidy funds	1,502	2,993
Penalty on early termination of contracts	737	3,937
Rental income from investment properties	2,244	2,203
Other miscellaneous income ⁽¹⁾	2,259	2,108
Total	7,067	12,119

(1) Other miscellaneous income mainly includes penalty and confiscatory income.

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9 OPERATING EXPENSES

	For the six months ended 30 June	
	2021	2020
Staff costs (including directors and supervisors' emoluments (allowance inclusive)) ⁽¹⁾	371,852	279,241
Business and administrative expenses	99,878	76,835
Professional service fee	7,986	12,581
Depreciation and amortisation	78,375	68,915
Taxes and surcharges	21,504	15,752
Expenditures on public welfare donations	4,695	1,350
Other non-operating expenses	74	370
Other business expenses	4,786	3,568
Total	589,150	458,612

(1) Staff costs

	For the six months ended 30 June	
	2021	2020
Salaries and bonuses	290,416	228,849
Defined contribution plans ^(a)	35,663	16,914
Other social security and benefit costs	6,288	4,087
Housing benefits and subsidies	13,116	11,070
Staff benefits	17,911	12,230
Staff education and labour union expenses	8,458	6,091
Total	371,852	279,241

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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9 OPERATING EXPENSES (continued)

(1) Staff costs (continued)

(a) Defined contribution plans

The Bank's defined contribution plans are mainly basic pension insurance, enterprise annuity and unemployment insurance paid for employees.

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

The amount recognised in profit or loss is as follows:

	For the six months ended 30 June	
	2021	2020
Expenses incurred for retirement benefit	16,239	2,271
Expenses incurred for corporate annuity plan	19,424	14,643
Total	35,663	16,914

The amount payable at the end of the period/year is as follows:

	As at 30 June 2021	As at 31 December 2020
Consolidated statement of financial position obligations for:		
Expenses incurred for retirement benefit	1,665	1,472
Expenses incurred for corporate annuity plan	4	4
Total	1,669	1,476

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For the six months ended 30 June 2021
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10 EXPECTED CREDIT LOSSES

	For the six months ended 30 June	
	2021	2020
ECL for customer loans at amortised cost (Note 15(b))	324,722	518,770
ECL for customer loans – FVOCI (Note 15(b))	11,748	41,790
ECL for financial investments – credit related financial assets (Note 16)	(129)	7,807
ECL for financial investments – amortised cost (Note 19)	6,598	22,740
ECL for financial investments – FVOCI (Note 18)	21,319	12,720
ECL for financial assets held under resale agreements, due from other banks and financial institutions (Note 14)	(81)	(168)
ECL for guarantee commitments	(2,879)	4,288
Other impairment losses (Note 23(3))	959	2,339
Total	362,257	610,286

11 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021	2020
Current income tax	148,355	288,489
Deferred income tax (Note 22)	9,001	(159,601)
Total	157,356	128,888

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

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (for the six months ended 30 June 2020: 25%) to profit before income tax can be reconciled as follows:

	For the six months ended 30 June	
	2021	2020
Profit before income tax	721,120	578,003
Tax calculated at a tax rate of 25%	180,280	144,501
Tax effect arising from non-taxable income ^(a)	(19,414)	(16,709)
Tax effect of expenses that are not deductible for tax purposes ^(b)	2,039	791
Income tax adjustment for prior years	(5,549)	305
Income tax expense	157,356	128,888

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

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

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12 BASIC AND DILUTED EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2021	2020
Net profit attributable to shareholders of the Bank	563,764	449,115
Less: Net profit attributable to other equity holders of the Bank	(95,100)	–
Net profit attributable to ordinary shareholders of the Bank	468,664	449,115
Weighted average number of ordinary shares issued ('000)	2,264,793	2,264,793
Basic earnings per share (RMB)	0.21	0.20

The Bank issued non-cumulative perpetual bonds on 18 March 2020 and 11 June 2020 under the terms and conditions as detailed in Note 29.1 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has declared distributions on perpetual bonds of RMB95,100 thousand for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

13 CASH AND BALANCES WITH CENTRAL BANK

	30 June 2021	31 December 2020
Cash	83,324	79,640
Mandatory reserve deposits with central bank	6,794,596	5,913,436
Surplus reserve deposits with central bank	2,857,616	4,212,815
Fiscal deposits with central bank	615,906	280,274
Accrued interest	3,286	3,906
Total	10,354,728	10,490,071

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

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

	30 June 2021	31 December 2020
Mandatory reserve rate for deposits denominated in RMB	7.00%	7.00%

Mandatory reserve deposits with central bank are not available for use by the Bank in its day to day operation.

Surplus reserve deposits are maintained with central bank mainly for liquidity purpose.

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

	30 June 2021	31 December 2020
Securities purchased under resale agreements	1,103,340	3,663,045
Placements with other banks and financial institutions	212,770	212,770
Deposits with other banks and financial institutions	1,026,562	1,097,952
Less: ECL allowance	(12,962)	(13,043)
Accrued interest	1,765	1,224
Total	2,331,475	4,961,948

15 CUSTOMER LOANS

(a) Customer loans

	30 June 2021	31 December 2020
Customer loans at amortised cost		
Corporate loans	56,039,051	46,850,100
Personal loans	7,950,565	7,724,429
Accrued interest	225,086	270,839
Gross amount of loans at amortised cost	64,214,702	54,845,368
Less: ECL allowance	(1,913,737)	(2,038,405)
Net customer loans at amortised cost	62,300,965	52,806,963
Customer loans – FVOCI		
Discounted bills	5,336,479	4,778,348
Net customer loans – FVOCI	5,336,479	4,778,348
Net customer loans	67,637,444	57,585,311

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15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	1,045,114	109,368	702,804	1,857,286
New financial assets originated or purchased	343,081	-	-	343,081
Remeasurement	39,963	5,829	53,691	99,483
Repayments	(157,308)	(7,450)	(481)	(165,239)
Written-offs and disposals	-	-	(445,559)	(445,559)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,259)	1,259	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(1,904)	-	1,904	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(7,064)	7,064	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Unwinding of discount	-	-	(13,857)	(13,857)
Loss allowance as at 30 June 2021	1,267,687	101,942	305,566	1,675,195

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	96,514	36,605	48,000	181,119
New financial assets originated or purchased	62,774	-	-	62,774
Remeasurement	11,394	6,388	25,333	43,115
Repayments	(41,852)	(13,159)	(3,481)	(58,492)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,805)	4,805	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(628)	-	628	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(17,390)	17,390	-
<i>Transfer from Stage 3 to Stage 2</i>	-	391	(391)	-
<i>Transfer from Stage 2 to Stage 1</i>	803	(803)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	99	-	(99)	-
Recoveries of loans written-off in previous years	-	-	7,461	7,461
Unwinding of discount	-	-	2,565	2,565
Loss allowance as at 30 June 2021	124,299	16,837	97,406	238,542

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15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	663,570	509,487	216,332	1,389,389
New financial assets originated or purchased	425,379	–	–	425,379
Remeasurement	208,940	68,755	252,331	530,026
Repayments	(250,866)	(22,665)	(49,181)	(322,712)
Written-off	–	–	(219,216)	(219,216)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,781)	4,781	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(141)	–	141	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(447,977)	447,977	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	3,013	(3,013)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Recoveries of loans written-off in previous years	–	–	32,125	32,125
Unwinding of discount	–	–	22,295	22,295
Loss allowance as at 31 December 2020	1,045,114	109,368	702,804	1,857,286

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	26,068	25,222	19,305	70,595
New financial assets originated or purchased	74,368	–	–	74,368
Remeasurement	11,533	23,738	16,382	51,653
Repayments	(16,321)	(8,387)	(7,085)	(31,793)
Written-off	–	–	(15,280)	(15,280)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(348)	348	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(435)	–	435	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(3,653)	3,653	–
<i>Transfer from Stage 3 to Stage 2</i>	–	601	(601)	–
<i>Transfer from Stage 2 to Stage 1</i>	1,264	(1,264)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	385	–	(385)	–
Recoveries of loans written-off in previous years	–	–	29,484	29,484
Unwinding of discount	–	–	2,092	2,092
Loss allowance as at 31 December 2020	96,514	36,605	48,000	181,119

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15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	72,222	-	-	72,222
Provision for impairment	11,748	-	-	11,748
As at 30 June 2021	83,970	-	-	83,970

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	21,166	-	-	21,166
Provision for impairment	51,056	-	-	51,056
As at 31 December 2020	72,222	-	-	72,222

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15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans

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

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	45,176,538	390,212	1,283,350	46,850,100
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(52,496)	52,496	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(106,757)	-	106,757	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(29,717)	29,717	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current period	(8,600,453)	(27,585)	(657)	(8,628,695)
New financial assets occurred or purchased	18,800,719	-	-	18,800,719
Written-offs and disposals	-	-	(983,073)	(983,073)
As at 30 June 2021	55,217,551	385,406	436,094	56,039,051
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	7,516,912	133,301	74,216	7,724,429
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(32,156)	32,156	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(21,695)	-	21,695	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(54,159)	54,159	-
<i>Transfer from Stage 3 to Stage 2</i>	-	672	(672)	-
<i>Transfer from Stage 2 to Stage 1</i>	4,840	(4,840)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	167	-	(167)	-
Derecognition of financial assets of current period	(2,538,337)	(44,636)	(5,539)	(2,588,512)
New financial assets occurred or purchased	2,814,648	-	-	2,814,648
As at 30 June 2021	7,744,379	62,494	143,692	7,950,565

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15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	35,010,431	1,518,220	373,746	36,902,397
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(259,860)	259,860	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(9,500)	–	9,500	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(1,231,870)	1,231,870	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	22,900	(22,900)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Derecognition of financial assets of current year	(13,235,917)	(133,098)	(112,550)	(13,481,565)
New financial assets occurred or purchased	23,648,484	–	–	23,648,484
Written-off	–	–	(219,216)	(219,216)
As at 31 December 2020	45,176,538	390,212	1,283,350	46,850,100
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	6,018,422	113,699	43,658	6,175,779
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(77,318)	77,318	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(44,208)	–	44,208	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(16,601)	16,601	–
<i>Transfer from Stage 3 to Stage 2</i>	–	1,479	(1,479)	–
<i>Transfer from Stage 2 to Stage 1</i>	7,406	(7,406)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	972	–	(972)	–
Derecognition of financial assets of current year	(2,424,513)	(35,188)	(12,520)	(2,472,221)
New financial assets occurred or purchased	4,036,151	–	–	4,036,151
Written-off	–	–	(15,280)	(15,280)
As at 31 December 2020	7,516,912	133,301	74,216	7,724,429

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15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans (continued)

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	4,778,348	–	–	4,778,348
New financial assets originated or purchased	2,905,397	–	–	2,905,397
Proceeds received	(2,347,266)	–	–	(2,347,266)
As at 30 June 2021	5,336,479	–	–	5,336,479

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,499,648	–	–	1,499,648
New financial assets originated or purchased	4,778,348	–	–	4,778,348
Proceeds received	(1,499,648)	–	–	(1,499,648)
As at 31 December 2020	4,778,348	–	–	4,778,348

(d) Customer loans listed by stages

As at 30 June 2021	Stage 1	Stage 2	Stage 3	Total
Total customer loans	68,298,409	447,900	579,786	69,326,095
– Corporate loans	60,554,030	385,406	436,094	61,375,530
– Personal loans	7,744,379	62,494	143,692	7,950,565
Less: ECL allowance	(1,391,986)	(118,779)	(402,972)	(1,913,737)
Accrued interest	189,715	926	34,445	225,086
Net customer loans	67,096,138	330,047	211,259	67,637,444

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Total customer loans	57,471,798	523,513	1,357,566	59,352,877
– Corporate loans	49,954,886	390,212	1,283,350	51,628,448
– Personal loans	7,516,912	133,301	74,216	7,724,429
Less: ECL allowance	(1,141,628)	(145,973)	(750,804)	(2,038,405)
Accrued interest	172,401	1,125	97,313	270,839
Net customer loans	56,502,571	378,665	704,075	57,585,311

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16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS

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

	30 June 2021	31 December 2020
Financial investments – credit related financial assets		
– Trust plans ⁽¹⁾	3,560,350	3,896,600
Less: ECL allowance	(246,520)	(246,649)
Accrued interest	82,686	59,314
Total	3,396,516	3,709,265

(1) Trust plans

Analysis by type of collateral:

	30 June 2021	31 December 2020
Guaranteed	2,088,350	2,088,350
Pledged	989,500	1,032,250
Collateralised	260,000	310,000
Unsecured	222,500	466,000
Total	3,560,350	3,896,600

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16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

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

	Financial investments – credit related financial assets			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2021	53,300	193,349	–	246,649
Remeasurement	3,399	2,241	–	5,640
Repayments	(5,769)	–	–	(5,769)
As at 30 June 2021	50,930	195,590	–	246,520

	Financial investments – credit related financial assets			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	52,933	8,271	–	61,204
New financial assets originated or purchased	17,427	–	–	17,427
Remeasurement	4,995	186,710	–	191,705
Repayments	(15,416)	(8,271)	–	(23,687)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(6,639)	6,639	–	–
As at 31 December 2020	53,300	193,349	–	246,649

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16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS *(continued)*

The movement on gross amount (excluding accrued interest) of financial investments – credit related financial assets is as follows:

Gross amount	Financial investments – credit related financial assets			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	3,258,250	638,350	–	3,896,600
Derecognition of financial assets in the current period	(336,250)	–	–	(336,250)
As at 30 June 2021	2,922,000	638,350	–	3,560,350

Gross amount	Financial investments – credit related financial assets			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	4,187,600	50,000	–	4,237,600
New financial assets originated or purchased	1,000,000	–	–	1,000,000
Derecognition of financial assets in the current year	(1,291,000)	(50,000)	–	(1,341,000)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(638,350)	638,350	–	–
As at 31 December 2020	3,258,250	638,350	–	3,896,600

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17 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021	31 December 2020
Financial investments – fair value through profit or loss		
– Listed outside Hong Kong	7,290,625	6,179,494
– Unlisted	5,809,658	10,304,459
Total	13,100,283	16,483,953

Unlisted financial investments measured at fair value through profit or loss are set out below:

	30 June 2021	31 December 2020
Financial investments – fair value through profit or loss (unlisted)		
– Corporate entity bonds	2,875,681	1,906,098
– Funds	2,389,204	1,934,772
– Commercial bank bonds	397,074	328,334
– Trust plans	91,917	–
– Equity investments at fair value	55,782	996
– Wealth management products purchased from financial institutions	–	6,104,208
– Joint-investment projects	–	30,051
Total	5,809,658	10,304,459

The Bank's unlisted corporate entity bonds are traded in the inter-bank bond market in Mainland China.

As at 30 June 2021, no trading securities of the Bank were pledged to third parties under repurchase agreements (as at 31 December 2020: Nil).

Financial investments measured at fair value through profit or loss by the issuer are set out below:

	30 June 2021	31 December 2020
Financial investments – fair value through profit or loss		
– Corporate companies	10,153,707	8,073,538
– Fund companies	2,389,204	1,934,772
– Commercial banks	397,074	6,462,593
– Trust companies	91,917	–
– Equity investments at fair value	68,381	13,050
Total	13,100,283	16,483,953

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18 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2021	31 December 2020
Financial investments – FVOCI		
– Listed outside Hong Kong	4,789,857	4,370,987
– Unlisted	4,381,433	3,544,857
Subtotal	9,171,290	7,915,844
Accrued interest	260,294	185,087
Total	9,431,584	8,100,931

Unlisted financial investments measured at fair value through other comprehensive income are set out below:

	30 June 2021	31 December 2020
Financial investments – FVOCI (unlisted)		
– Policy bank bonds	1,388,072	765,853
– Government bonds	1,327,323	679,825
– Corporate entity bonds	1,280,528	1,126,918
– Commercial bank bonds	385,510	972,261
Total	4,381,433	3,544,857

The Bank's unlisted bonds are traded in the inter-bank bond market in Mainland China.

Financial investments measured at fair value through other comprehensive income by the issuer are set out below:

	30 June 2021	31 December 2020
Financial investments – FVOCI		
– Corporate companies	6,070,385	5,336,189
– Policy banks	1,388,072	765,853
– Government	1,327,323	841,541
– Commercial banks	385,510	972,261
Total	9,171,290	7,915,844

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

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

	Financial investments – FVOCI			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2021	127,335	–	–	127,335
New financial assets originated or purchased	19,208	–	–	19,208
Remeasurement	2,692	–	–	2,692
Repayments	(581)	–	–	(581)
As at 30 June 2021	148,654	–	–	148,654

	Financial investments – FVOCI			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	12,228	–	–	12,228
New financial assets originated or purchased	94,870	–	–	94,870
Remeasurement	28,387	–	–	28,387
Repayments	(8,150)	–	–	(8,150)
As at 31 December 2020	127,335	–	–	127,335

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For the six months ended 30 June 2021
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19 FINANCIAL INVESTMENTS – AMORTISED COST

	30 June 2021	31 December 2020
Financial investments – amortised cost		
– Listed outside Hong Kong	1,048,962	689,931
– Unlisted	19,437,581	15,200,901
Subtotal	20,486,543	15,890,832
Accrued interest	345,641	254,938
Less: ECL allowance	(489,789)	(474,942)
Total	20,342,395	15,670,828

Unlisted financial investments measured at amortised cost are set out below:

	30 June 2021	31 December 2020
Financial investments – amortised cost (unlisted)		
– Corporate entity bonds	8,128,733	8,446,079
– Policy bank bonds	4,907,184	3,144,223
– Government bonds	3,955,203	1,041,338
– Collective Trust plans	1,086,000	1,086,000
– Local government bonds	960,461	1,083,261
– Industry funds (Senior tranche)	400,000	400,000
Total	19,437,581	15,200,901

Financial investments – amortised cost are analysed by issuer as follows:

	30 June 2021	31 December 2020
Financial investments – amortised cost		
– Corporate companies	9,177,695	9,136,010
– Governments	4,915,664	2,124,599
– Policy banks	4,907,184	3,144,223
– Trust companies	1,086,000	1,086,000
– Fund companies	400,000	400,000
Total	20,486,543	15,890,832

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19 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

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

	Financial investments – amortised cost			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2021	175,783	106,418	192,741	474,942
New financial assets originated or purchased	18,605	–	–	18,605
Remeasurement	8,627	(774)	4,904	12,757
Repayments	(19,781)	(4,983)	–	(24,764)
Unwinding of discount	–	–	8,249	8,249
As at 30 June 2021	183,234	100,661	205,894	489,789
	Financial investments – amortised cost			
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2020	206,645	91,762	–	298,407
New financial assets originated or purchased	38,830	–	–	38,830
Remeasurement	54,375	101,803	87,287	243,465
Repayments	(119,452)	–	–	(119,452)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(4,615)	4,615	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(91,762)	91,762	–
Unwinding of discount	–	–	13,692	13,692
As at 31 December 2020	175,783	106,418	192,741	474,942

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19 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

The movement on gross amount (excluding accrued interest) of financial investments – amortised cost is as follows:

Gross amount	Financial investments – amortised cost			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	15,290,832	350,000	250,000	15,890,832
New financial assets originated or purchased	5,925,890	–	–	5,925,890
Derecognition of financial assets in the current period	(1,313,792)	(16,387)	–	(1,330,179)
As at 30 June 2021	19,902,930	333,613	250,000	20,486,543

Gross amount	Financial investments – amortised cost			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	22,190,015	250,000	–	22,440,015
New financial assets originated or purchased	3,001,718	–	–	3,001,718
Derecognition of financial assets in the current year	(9,550,901)	–	–	(9,550,901)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(350,000)	350,000	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(250,000)	250,000	–
As at 31 December 2020	15,290,832	350,000	250,000	15,890,832

20 INVESTMENT IN AN ASSOCIATE

	30 June 2021	31 December 2020
Balance at the beginning of the period/year	45,175	40,738
Share of profit after tax	2,171	4,437
Balance at the end of the period/year	47,346	45,175

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

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20 INVESTMENT IN AN ASSOCIATE (continued)

Investment in the associate of the Bank is in unlisted company equity interest. Assets, liabilities, revenue and profit of the associate are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held (%)
30 June 2021						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,144,602	986,781	18,402	7,507	30%
31 December 2020						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,163,012	1,012,428	37,876	14,404	30%

21 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress ^(a)	Total
Cost						
As at 1 January 2021	654,937	10,438	142,686	42,909	175,795	1,026,765
Additions	16,698	-	6,162	1,789	18,508	43,157
Less: Disposal in the current period	-	-	(276)	-	-	(276)
As at 30 June 2021	671,635	10,438	148,572	44,698	194,303	1,069,646
Accumulated depreciation						
As at 1 January 2021	(105,064)	(4,150)	(94,829)	(17,828)	-	(221,871)
Depreciation in the current period	(15,514)	(851)	(10,003)	(3,456)	-	(29,824)
Disposals	-	-	245	-	-	245
As at 30 June 2021	(120,578)	(5,001)	(104,587)	(21,284)	-	(251,450)
Net book value						
As at 30 June 2021	551,057	5,437	43,985	23,414	194,303	818,196

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21 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress ^(a)	Total
Cost						
As at 1 January 2020	652,811	8,148	117,005	31,602	106,090	915,656
Additions	2,126	4,109	27,400	11,368	194,412	239,415
Transfer in/(out)	-	-	395	157	(552)	-
Less: Disposals in the current year	-	(1,819)	(2,114)	(218)	-	(4,151)
Transfer to long-term prepaid expenses	-	-	-	-	(124,155)	(124,155)
As at 31 December 2020	654,937	10,438	142,686	42,909	175,795	1,026,765
Accumulated depreciation						
As at 1 January 2020	(74,005)	(4,761)	(79,943)	(12,395)	-	(171,104)
Depreciation in the current year	(31,059)	(1,117)	(16,862)	(5,638)	-	(54,676)
Disposals	-	1,728	1,976	205	-	3,909
As at 31 December 2020	(105,064)	(4,150)	(94,829)	(17,828)	-	(221,871)
Net book value						
As at 31 December 2020	549,873	6,288	47,857	25,081	175,795	804,894

As at 30 June 2021, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, was RMB30,091 thousand (31 December 2020: RMB31,141 thousand). However, directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

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

(a) Construction in progress

	30 June 2021	31 December 2020
Software engineering	47,353	41,173
Business building and decoration projects	114,804	107,997
Others	32,146	26,625
Total	194,303	175,795

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22 DEFERRED INCOME TAX

Deferred income taxes were calculated on all temporary differences under the liability method using an effective tax rate of 25% as at 30 June 2021 and 31 December 2020 for transactions in the PRC (2020: 25%).

Movements in the deferred income tax account are as follows:

	30 June 2021	31 December 2020
Balance at the beginning of the period/year	628,037	386,436
Income tax expense (Note 11)	(9,001)	268,589
Changes in fair value of financial investments at FVOCI	(6,837)	14,553
Changes in ECL allowance of financial investments at FVOCI	(8,266)	(41,541)
Balance at the end of the period/year	603,933	628,037

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

	30 June 2021		31 December 2020	
	Temporary differences	Deferred income tax assets/ (liabilities)	Temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	2,098,322	524,581	2,215,610	553,903
Unrealised losses on fair value measurement of financial investments at FVPL	108,440	27,110	55,325	13,831
Unrealised losses on fair value measurement of financial investments at FVOCI	-	-	5,647	1,412
Payroll payable	230,669	57,667	235,565	58,891
Subtotal	2,437,431	609,358	2,512,147	628,037
Deferred tax liabilities				
Unrealised gains on fair value measurement of financial investments at FVOCI	(21,699)	(5,425)	-	-
Subtotal	(21,699)	(5,425)	-	-
Net deferred income tax assets	2,415,732	603,933	2,512,147	628,037

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23 OTHER ASSETS

	30 June 2021	31 December 2020
Other receivables	82,252	100,665
Long-term prepaid expenses	71,355	103,226
Right-of-use assets ⁽¹⁾	65,639	55,089
Prepaid expenses	51,677	39,221
Foreclosed assets ⁽²⁾	30,152	48,300
Less: Impairment allowance ⁽³⁾	(13,329)	(15,855)
Interest receivable from customer loans	13,479	42,610
Investment properties ⁽⁴⁾	1,020	1,092
Settlement fund ⁽⁵⁾	24,227	31,220
Others	–	278
Total	326,472	405,846

(1) Right-of-use assets

	Buildings	Office equipment	Total
Cost			
As at 1 January 2021	79,175	110	79,285
Additions	21,100	–	21,100
Decreases	(5,028)	–	(5,028)
As at 30 June 2021	95,247	110	95,357
Accumulated depreciation			
As at 1 January 2021	(24,163)	(33)	(24,196)
Depreciation in the period	(10,539)	(11)	(10,550)
Decreases	5,028	–	5,028
As at 30 June 2021	(29,674)	(44)	(29,718)
Net book value			
As at 30 June 2021	65,573	66	65,639

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For the six months ended 30 June 2021
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23 OTHER ASSETS (continued)

(1) Right-of-use assets (continued)

	Buildings	Office equipment	Total
Cost			
As at 1 January 2020	57,048	110	57,158
Additions	33,121	–	33,121
Decreases	(10,994)	–	(10,994)
As at 31 December 2020	79,175	110	79,285
Accumulated depreciation			
As at 1 January 2020	(15,009)	(11)	(15,020)
Depreciation in the year	(20,148)	(22)	(20,170)
Decreases	10,994	–	10,994
As at 31 December 2020	(24,163)	(33)	(24,196)
Net book value			
As at 31 December 2020	55,012	77	55,089

(2) Foreclosed assets

	Properties and plants
1 January 2021	48,300
Additions	7,927
Disposals	(26,075)
30 June 2021	30,152
1 January 2020	50,490
Additions	17,704
Disposals	(19,894)
31 December 2020	48,300

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23 OTHER ASSETS (continued)

(3) Impairment for foreclosed assets

	Properties and plants
1 January 2021	15,855
Additions	959
Disposals	(3,485)
30 June 2021	13,329
1 January 2020	19,461
Additions	2,362
Disposals	(5,968)
31 December 2020	15,855

(4) Investment properties

	30 June 2021	31 December 2020
Cost		
Balance at the beginning of the period/year	11,453	11,453
Balance at the end of the period/year	11,453	11,453
Accumulated depreciation		
Balance at the beginning of the period/year	(10,361)	(10,123)
Provision	(72)	(238)
Balance at the end of the period/year	(10,433)	(10,361)
Net book value		
Balance at the end of the period/year	1,020	1,092

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23 OTHER ASSETS (continued)

(4) Investment properties (continued)

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

	30 June 2021	31 December 2020
Located in PRC		
Leased out (within 10 years)	925	997
Held for operating lease	95	95
Total	1,020	1,092

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

24 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
Deposits from other banks	457,825	980,326
Placements from other banks and financial institutions	3,595,000	3,790,000
Accrued interest	15,993	60,040
Total	4,068,818	4,830,366

25 CUSTOMER DEPOSITS

	30 June 2021	31 December 2020
Corporate demand deposits	31,334,149	34,774,888
Including:		
Pledged deposits held as collateral	2,206,984	1,766,786
Corporate time deposits	8,957,160	7,548,567
Individual demand deposits	8,084,110	6,316,539
Individual time deposits	40,278,479	35,464,652
Accrued interest	1,285,406	1,118,458
Total	89,939,304	85,223,104

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26 DEBT SECURITIES ISSUED

	30 June 2021	31 December 2020
Inter-bank certificates of deposit	17,202,005	14,035,290
Fixed rate tier-2 capital debt – 2027 ^(a)	1,000,000	1,000,000
Fixed rate tier-2-capital debt – 2030 ^(b)	1,500,000	1,500,000
Fixed rate SME debt – 2024 ^(c)	2,000,000	–
Accrued interest	79,337	63,200
Total	21,781,342	16,598,490

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

(b) The Bank issued RMB0.8 billion tier-2 capital debt in September 2020. The term of this capital debt lasts for 10 years, and the fixed interest rate is 5.00%. The Bank, as an issuer, can choose to redeem the debt in part or for all at the face value on 29 September 2025, the last day of the interest rate year that is set to redeem in advance in this year, if the capital level of the Bank still meets the requirement of CBIRC requirement after exercising the right of redemption and subject to the CBIRC approval.

The Bank issued RMB0.7 billion tier-2 capital debt in November 2020. The term of this capital debt lasts for 10 years, and the fixed interest rate is 4.80%. The Bank, as an issuer, can choose to redeem the debt in part or for all at the face value 13 November 2025, the last day of the interest rate year that is set to redeem in advance in this year, if the capital level of the Bank still meets the requirement of CBIRC requirement after exercising the right of redemption and subject to the CBIRC approval.

(c) The Bank issued RMB2 billion special financial debt for loans to small and micro enterprises (the “SME debt”) in May 2021. The term of this SME debt lasts for 3 years, and the fixed interest rate is 3.85%. The Bank has no option to redeem the bond before maturity.

The tier-2 capital debts the Bank issued have the write-down feature, which allows the Bank to write down the entire principals of the debts when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable.

As at 30 June 2021, the Bank did not have overdue principal or interest on debt issued or certificates of deposit, or any other default (As at 31 December 2020: Nil).

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27 OTHER LIABILITIES

	30 June 2021	31 December 2020
Employee benefits payable	343,641	309,465
Dividends payable	119,955	120,005
Lease liabilities	63,264	51,938
Deferred income	28,651	9,353
Provisions ^(a)	12,704	15,583
Security deposits	3,975	5,496
Others	54,977	77,814
Total	627,167	589,654

(a) Movements in the provisions

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	15,583	–	–	15,583
Addition	9,223	–	–	9,223
Transfer out	(8,449)	–	–	(8,449)
Remeasurement	(3,653)	–	–	(3,653)
As at 30 June 2021	12,704	–	–	12,704
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	16,513	–	–	16,513
Addition	11,038	–	–	11,038
Transfer out	(7,575)	–	–	(7,575)
Remeasurement	(4,393)	–	–	(4,393)
As at 31 December 2020	15,583	–	–	15,583

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28 SHARE CAPITAL AND CAPITAL SURPLUS

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

	30 June 2021	31 December 2020
Number of shares ('000)	2,264,793	2,264,793

The movement of share capital is as follows:

Share capital ('000)	30 June 2021	31 December 2020
Balance at the beginning of the period/year	2,264,793	2,264,793
Capital increase by shareholders	–	–
Balance at the end of the period/year	2,264,793	2,264,793

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

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

Capital surplus can be utilised for increasing capital as approved by the shareholders.

As at 31 December 2020 and 30 June 2021, the Bank's capital surplus was shown as follow:

	31 December 2020	Additions	30 June 2021
Share premium	2,239,314	–	2,239,314

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29 OTHER EQUITY INSTRUMENTS

29.1 Perpetual bonds

29.1.1 Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In RMB (in thousands)	Maturity
Perpetual bonds in RMB	18 March 2020	Equity	5.80%	RMB100/bond	10,000,000	1,000,000	No fixed maturity date
Perpetual bonds in RMB	11 June 2020	Equity	5.30%	RMB100/bond	7,000,000	700,000	No fixed maturity date
					Total	1,700,000	
				Less: Offering related expenses		(3,176)	
				Carrying amount		1,696,824	

29.1.2 Main clauses

With the approval of relevant Chinese regulatory authorities, the Bank issued perpetual bonds in the inter-bank bond market on 18 March 2020 and 11 June 2020, with a total face value of RMB1.7 billion and each face value of RMB100. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives. The coupon rate is determined by a benchmark rate plus a fixed spread, and it will be adjusted every 5 years, the coupon rate for the first 5 years is respectively 5.80% and 5.30%.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date. Upon the occurrence of Write-down Event, the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds. The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the perpetual bonds.

The distributions on the perpetual bonds are non-cumulative. The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. However, the Bank will not distribute income to ordinary shareholders until it decides to start paying full distributions to the bondholders.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

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30 OTHER RESERVES

	Surplus reserve ^(a)	General reserve ^(b)	Revaluation reserve of financial assets at FVOCI	Impairment allowances for financial assets at FVOCI	Total
Balance at 1 January 2021	457,338	1,148,053	(4,236)	149,669	1,750,824
Other comprehensive income	-	-	20,510	24,799	45,309
Addition	-	391,514	-	-	391,514
Balance at 30 June 2021	457,338	1,539,567	16,274	174,468	2,187,647
Balance at 1 January 2020	399,731	977,442	39,422	25,046	1,441,641
Other comprehensive income	-	-	(43,658)	124,623	80,965
Addition	57,607	170,611	-	-	228,218
Balance at 31 December 2020	457,338	1,148,053	(4,236)	149,669	1,750,824

(a) Surplus reserve

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

(b) General reserve

The Bank follows “the management methods of financial institutions reserve” (CAIJIN [2012] No. 20) issued by the Ministry of Finance. According to these requirements, the general reserve should not be lower than the 1.5% of the year end risk assets.

On 25 March 2021, the Board of Directors of the Bank proposed that 1.5% of the risk assets at the end of 2020 should be accrued for general risk reserve amounted to RMB391,514 thousand. This proposal has been approved by the Annual General Meeting held on 8 June 2021. As at 30 June 2021, the ending balance of general reserve was RMB1,539,567 thousand (as at 31 December 2020: RMB1,148,053 thousand).

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31 DIVIDENDS

	30 June 2021	31 December 2020
Dividends declared for the period/year	-	294,423
Dividend per share (in RMB)	-	0.13

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

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

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

According to the "Plan for profit distribution of Luzhou Bank Co., Ltd. in 2019" approved in the Annual General Meeting for year 2019 on 26 May 2020, the Bank had distributed cash dividends RMB294,423 thousand (including tax) as of 8 June 2020 to its shareholders, which is calculated at RMB0.13 dividend per share.

On 25 March 2021, the Board of Directors of the Bank proposed the capitalisation of the capital surplus from the issue of shares at premium by issuing shares in a proportion of 2 shares for every 10 shares being held, which will be an additional 452,958,677 shares. The share capital will change from RMB2,264,793 thousand to RMB2,717,752 thousand after the capitalisation, which is approved by CBIRC on 17 August 2021. The 2020 annual profit distribution plan and the capitalisation issue plan have been approved by the Annual General Meeting on 8 June 2021.

32 STRUCTURED ENTITIES

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as asset manager. Based on the analysis and research on the potential targeted clients, the Bank designs and sells wealth management products to specific targeted clients, and the raised funds are then put into related financial market or invested in related financial products according to the product contracts. Investment returns would be allocated to investors according to the contract. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank had recognised net commission income from asset management service of non-principal-guaranteed wealth management products with the amount of RMB3,565 thousand for the six months ended 30 June 2021 (For the six months ended 30 June 2020: RMB399 thousand). The Bank did not provide any liquidity support to the wealth management products for the six months ended 30 June 2021 (For the six months ended 30 June 2020: Nil).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

32 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

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

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

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

As at 30 June 2021, the balance of unconsolidated wealth management products issued and managed by the Bank was RMB4,753,568 thousand (As at 31 December 2020: RMB3,001,443 thousand).

(ii) Unconsolidated structured entities invested by the Bank

In order to increase the return of extra funds, the Bank invests in the unconsolidated structured entities which mainly included the funds and trust plans issued and managed by third parties. The Bank classified the investments in the unconsolidated structured entities as financial assets at FVPL or amortised cost (For the six months ended 30 June 2020: the unconsolidated structured entities invested by the Bank mainly included the funds, trust plans and wealth management products issued and managed by third parties).

The table below lists the book value (including accrued interest) and maximum loss risk exposure of the assets as a result of the holdings of benefits from unconsolidated structured entities.

30 June 2021	Book value	Maximum loss exposure
Financial investments – amortised cost	1,067,903	1,067,903
Financial investments – fair value through profit or loss	2,481,121	2,481,121
Total	3,549,024	3,549,024

31 December 2020	Book value	Maximum loss exposure
Financial investments – amortised cost	1,073,983	1,073,983
Financial investments – fair value through profit or loss	8,069,031	8,069,031
Total	9,143,014	9,143,014

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

32 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

(ii) Unconsolidated structured entities invested by the Bank (continued)

For the six months ended 30 June 2021 and 2020, the interest income, net gains on financial investments and fee and commission income from the above unconsolidated structured entities were:

	For the six months ended 30 June	
	2021	2020
Interest income	42,965	32,412
Net gains on financial investments	98,084	12,228
Fee and commission income	3,565	399
Total	144,614	45,039

For the six months ended 30 June 2021, the Bank has not provided any financial or other support to unconsolidated structured entities (For the six months ended 30 June 2020: Nil).

(b) Consolidated structured entities

30 June 2021	Book value	Maximum loss exposure
Financial investments – credit related financial assets	3,396,516	3,396,516
Financial investments – amortised cost	5,269,197	5,269,197
Total	8,665,713	8,665,713

31 December 2020	Book value	Maximum loss exposure
Financial investments – credit related financial assets	3,709,265	3,709,265
Financial investments – amortised cost	5,699,974	5,699,974
Total	9,409,239	9,409,239

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

	For the six months ended 30 June	
	2021	2020
Interest income	344,633	655,242

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

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

Financial guarantees and credit related commitments

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

	30 June 2021	31 December 2020
Bank acceptance notes	3,766,506	3,548,104
Letter of credit	200,000	–
Letter of guarantees	77,629	353,348
Total	4,044,135	3,901,452

Capital expenditure commitments

	30 June 2021	31 December 2020
Contracted but not provided for		
– Capital expenditure commitments for buildings	45,591	21,623
– Acquisition of IT system	108,768	82,829
	154,359	104,452
Authorised but not contracted for		
– Capital expenditure commitments for buildings	111,295	16
– Acquisition of IT system	44,420	10,590
	155,715	10,606
Total	310,074	115,058

Legal proceedings

The Bank has involved as defendants in certain lawsuits arising from its normal business operations. The Bank had no significant outstanding legal claims as at 30 June 2021 (As at 31 December 2020: Nil).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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34 COLLATERALS

(a) Assets pledged:

The carrying amounts of bonds pledged as collateral under refinance agreements with the PBOC are as follows:

	30 June 2021	31 December 2020
Bonds	547,000	613,000

As at 30 June 2021, the Bank's refinance agreements were due within 6 months.

(b) Collateral accepted:

The Bank received debt securities and inter-bank certificates of deposits as collateral in connection with the purchase of assets under resale agreements, the Bank has not accepted collateral that can be resold or repledged. The book value of the collateral was RMB1,103,340 thousand as at 30 June 2021 (As at 31 December 2020: RMB3,663,045 thousand). The Bank did not resell or repledge such collateral.

35 OTHER COMPREHENSIVE INCOME

	Before tax amount	Tax benefit	Net of tax amount
For the six months ended 30 June 2021			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of financial investments measured at FVOCI	27,345	(6,835)	20,510
Expected credit losses of financial investments measured at FVOCI	33,067	(8,268)	24,799
Other comprehensive income for the period	60,412	(15,103)	45,309

	Before tax amount	Tax (benefit)/ expense	Net of tax amount
For the six months ended 30 June 2020			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of financial investments measured at FVOCI	(13,836)	3,459	(10,377)
Expected credit losses of financial investments measured at FVOCI	54,510	(13,628)	40,882
Other comprehensive income for the period	40,674	(10,169)	30,505

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

36 NOTES TO STATEMENTS OF CASH FLOWS

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

	30 June 2021	30 June 2020
Cash and balances with central bank	2,940,940	3,629,310
Financial assets due from other banks and financial institutions	1,226,522	1,695,307
Total	4,167,462	5,324,617

37 RELATED PARTY TRANSACTIONS

37.1 Related party relationships

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

As at 30 June 2021, the major shareholders of the Bank, holding 5% or more of the equity interest in the Bank, or holding less than 5% of the equity interest of the Bank but able to exercise significant influence over the operation and management of the Bank, were as follows:

Name of shareholders	Number of shares held (share '000)	Shareholding (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.37
Luzhou Laojiao Co., Ltd.	36,160	1.60
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	11.97
Sichuan Luzhou Jiale Real Estate Co., Ltd.	7,232	0.32
Luzhou Xinfu Mining Group Co., Ltd.	271,200	11.97
Luzhou Finance Bureau	161,545	7.13
Luzhou Industrial Development Investment Group Co., Ltd.	73,462	3.24
Luzhou State Owned Assets Management Co., Ltd.	144,640	6.39
Sichuan Lutianhua Co., Ltd.	10,848	0.48
Lutianhua Group Co., Ltd.	202	0.01
Luzhou Xinglu Investment Group Co., Ltd.	40,549	1.79
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,716	4.05
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	15,006	0.66
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	11,246	0.50
Total	1,460,446	64.48

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (continued)

37.1 Related party relationships (continued)

As at 31 December 2020, the major shareholders of the Bank, holding 5% or more of the equity interest in the Bank, or holding less than 5% of the equity interest of the Bank but able to exercise significant influence over the operation and management of the Bank, were as follows:

Name of shareholders	Number of shares held (share '000)	Shareholding (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.37
Luzhou Laojiao Co., Ltd.	36,160	1.60
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	11.97
Sichuan Luzhou Jiale Real Estate Co., Ltd.	7,232	0.32
Luzhou Xinfu Mining Group Co., Ltd.	271,200	11.97
Luzhou Finance Bureau	161,545	7.13
Luzhou Industry Development Investment Group Co., Ltd.	73,462	3.24
Luzhou State Owned Assets Management Co., Ltd.	144,640	6.39
Sichuan Lutianhua Co., Ltd.	10,848	0.48
Lutianhua Group Co., Ltd.	202	0.01
Luzhou Xinglu Investment Group Co., Ltd.	40,549	1.79
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,716	4.05
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	15,006	0.66
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	11,246	0.50
Wudaokou Capital Limited	111,989	4.94
Total	1,572,435	69.42

37.2 Related party transactions

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

(1) Related party customer loans (including discounted bills)

	30 June 2021	31 December 2020
Major shareholders	449,150	396,980
Other related companies	2,108,653	3,068,750
Key management personnel and their close family members	76,186	76,007
Total	2,633,989	3,541,737

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(2) Related party loan interest income (including discounted bills)

	For the six months ended 30 June	
	2021	2020
Major shareholders	15,101	–
Other related companies	92,596	80,990
Key management personnel and their close family members	1,753	1,642
Total	109,450	82,632

(3) Related party deposits

	30 June 2021	31 December 2020
Major shareholders	5,954,765	4,920,405
Other related companies	1,350,765	983,428
Key management personnel and their close family members	503,452	471,530
Total	7,808,982	6,375,363

(4) Related party deposit interest expense

	For the six months ended 30 June	
	2021	2020
Major shareholders	80,651	43,625
Other related companies	6,882	10,830
Key management personnel and their close family members	11,197	7,104
Total	98,730	61,559

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(5) Related party other receivables and pre-payments

	30 June 2021	31 December 2020
Major shareholders	70	70
Other related companies	34,993	669
Total	35,063	739

(6) Related party financial investments – fair value through profit or loss

	30 June 2021	31 December 2020
Major shareholders	285,473	186,656
Other related companies	93,282	185,429
Total	378,755	372,085

(7) Related party net gains on financial investments – fair value through profit or loss

	For the six months ended 30 June	
	2021	2020
Major shareholders	10,178	–
Other related companies	6,829	–
Total	17,007	–

(8) Related party financial investments – fair value through other comprehensive income

	30 June 2021	31 December 2020
Major shareholders	195,790	193,198
Other related companies	421,452	419,374
Total	617,242	612,572

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(9) Related party interest income from financial investments – fair value through other comprehensive income

	For the six months ended 30 June	
	2021	2020
Major shareholders	6,555	6,941
Other related companies	15,330	3,658
Total	21,885	10,599

(10) Related party fees commission and income

	For the six months ended 30 June	
	2021	2020
Major shareholders	3	5
Other related companies	20	34
Key management personnel and their close family members	3	3
Total	26	42

(11) Key management compensation:

Key management personnel refer to those who have authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of key management personnel during the reporting periods are as follows:

	For the six months ended 30 June	
	2021	2020
Remuneration, salary, allowances and benefits	4,375	3,453
Discretionary bonuses	1,432	1,650
Contribution to pension schemes	135	82
Total	5,942	5,185

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(12) Balance of loan guarantee from related parties to the Bank

	As at 30 June 2021		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,729,728	3,417	2,733,145
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	80,900	–	80,900
Luzhou Jintong Financing Guarantee Co., Ltd.	115,050	43,040	158,090
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	480,650	27,900	508,550
Sichuan Hongxin Financing Guarantee Co., Ltd.	272,822	64,700	337,522
Luxian Agriculture and SMEs Financing Guarantee Co., Ltd.	123,780	2,800	126,580
Total	3,802,930	141,857	3,944,787

	As at 31 December 2020		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	3,039,455	16,925	3,056,380
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	79,700	–	79,700
Luzhou Jintong Financing Guarantee Co., Ltd.	98,450	51,040	149,490
Luzhou Xingyang Financing Guarantee Co., Ltd.	5,000	–	5,000
Sichuan Hongxin Financing Guarantee Co., Ltd.	250,770	99,900	350,670
Luzhou Industrial Investment and Financing Guarantee Co., Ltd.	409,316	18,950	428,266
Luxian Agriculture and SMEs Financing Guarantee Co., Ltd.	105,515	3,000	108,515
Total	3,988,206	189,815	4,178,021

For the six months ended 30 June 2021, the fees for the guarantee services provided by the related parties to the borrowers of the Bank shall be paid by the borrowers, and the Bank does not pay any fees to the related parties (For the six months ended 30 June 2020: same).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(13) Property leasing

Sichuan Kangrun Real Estate Co., Ltd., a related party of the Bank, leases two properties located in Chengdu City, Sichuan Province to the Bank. One of the lease terms starts from 1 March 2021 to 31 December 2021, for a period of ten months, and the other starts from 1 January 2021 to 31 December 2021, for a period of one year. The total rent is RMB2,883,464.

Luzhou Guohua Asset Management Co, Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 May 2020 to 30 April 2023, for a period of three years. The annual rent in the first and second year were RMB888,396 separately, and the annual rent increases by 3% in the third year. The total rent is RMB2,691,840.

Yijia Real Estate Development Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 August 2016 to 31 July 2026, for a period of ten years. The total rent is RMB840,499.

Luzhou Jiangnan New Area Construction Investment Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 May 2016 to 1 May 2021, for a period of five years. The total rent is RMB864,000 (The lessor was changed to Luzhou Xinglu Asset Management Co., Ltd. on 22 November 2017). The contract was renewed in 2021 and the lessor is still Luzhou Xinglu Asset Management Co., Ltd. The details of the renewed contract are still under negotiation.

Luzhou Xinglu Jutai Real Estate Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 September 2014 to 31 August 2022, for a period of eight years. The annual rent in the first year was RMB270,600, and the annual rent increases by 5% annually. The total rent is RMB2,584,044.

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

(14) Government related entities

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021

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

37 RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions (continued)

(15) Others

The above range of transaction interest rates with related parties is listed as follows:

	30 June 2021	31 December 2020
Customer loans	3.43%-9.00%	3.43%-9.00%
Customer deposits	0.35%-5.23%	0.10%-5.50%
Financial investments – fair value through other comprehensive income	8.00%-8.50%	8.00%-8.50%
Financial investments – fair value through profit or loss	5.85%-7.00%	5.85%-7.00%

38 SEGMENT ANALYSIS

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

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

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

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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38 SEGMENT ANALYSIS (continued)

Financial markets mainly perform inter-bank lending and borrowing, bonds investment and re-purchasing activities, etc.

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

	For the six months ended 30 June 2021				
	Corporate banking	Retail banking	Financial market	Others	Total
Net interest income/(expenses) from external customers	1,552,176	(734,943)	685,707	-	1,502,940
Inter-segment net interest income/(expenses)	(610,292)	1,000,416	(390,124)	-	-
Net interest income	941,884	265,473	295,583	-	1,502,940
Net fee and commission income	1,434	54	3,565	5	5,058
Net gains on trading activities	-	-	36,747	-	36,747
Net gains arising from financial investments	-	-	118,544	-	118,544
Other operating income	-	-	-	7,067	7,067
Operating income	943,318	265,527	454,439	7,072	1,670,356
Operating expenses	(336,827)	(40,604)	(210,043)	(1,676)	(589,150)
– Depreciation and amortisation	(40,107)	(7,934)	(29,932)	(370)	(78,343)
– Others	(296,720)	(32,670)	(180,111)	(1,306)	(510,807)
Expected credit losses	(286,065)	(47,397)	(27,836)	(959)	(362,257)
Share of profit of an associate	-	-	-	2,171	2,171
Profit before income tax	320,426	177,526	216,560	6,608	721,120
Capital expenditure	158,737	31,403	118,468	1,466	310,074
Segment assets	65,727,378	13,002,924	49,053,210	606,860	128,390,372
Segment liabilities	(40,890,349)	(49,565,143)	(28,468,871)	(3,087)	(118,927,450)

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
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38 SEGMENT ANALYSIS (continued)

	For the six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market	Others	Total
Net interest income/(expenses) from external customers	1,253,391	(528,422)	749,104	-	1,474,073
Inter-segment net interest income/(expenses)	(306,535)	712,377	(405,842)	-	-
Net interest income	946,856	183,955	343,262	-	1,474,073
Net fee and commission income	1,684	148	399	19	2,250
Net gains on trading activities	-	-	77,951	-	77,951
Net gains arising from financial investments	-	-	77,882	-	77,882
Other operating income	-	-	-	12,119	12,119
Operating income	948,540	184,103	499,494	12,138	1,644,275
Operating expenses	(227,875)	(30,546)	(198,060)	(2,131)	(458,612)
- Depreciation and amortisation	(31,726)	(6,718)	(30,131)	(340)	(68,915)
- Others	(196,149)	(23,828)	(167,929)	(1,791)	(389,697)
Expected credit losses	(524,603)	(49,372)	(36,300)	(11)	(610,286)
Share of profit of an associate	-	-	-	2,626	2,626
Profit before income tax	196,062	104,185	265,134	12,622	578,003
Capital expenditure	73,505	15,564	69,810	789	159,668
Segment assets	50,392,919	10,670,132	47,859,918	540,600	109,463,569
Segment liabilities	(40,630,583)	(36,828,870)	(23,223,991)	(8,595)	(100,692,039)

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

39 FIDUCIARY ACTIVITIES

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

	30 June 2021	31 December 2020
Entrusted loans	2,694,870	3,193,986

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Fair value hierarchy

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

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

The Bank determines the fair value of the financial instrument by valuation techniques when it is difficult to obtain quotations from the open market.

The main parameters of valuation techniques used in financial instruments include the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Financial instruments not measured at fair value

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

The table below summarises the financial assets and liabilities that have difference between book value (including accrued interest) and fair value as at 30 June 2021 and 31 December 2020.

	Book value	30 June 2021			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortised cost	20,342,395	–	12,199,734	8,158,637	20,358,371
Financial investments – credit related financial assets	3,396,516	–	–	3,570,225	3,570,225
Financial liabilities					
Debt securities issued	21,781,342	–	21,744,791	–	21,744,791

	Book value	31 December 2020			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortised cost	15,670,828	–	7,388,233	8,423,786	15,812,019
Financial investments – credit related financial assets	3,709,265	–	–	3,900,523	3,900,523
Financial liabilities					
Debt securities issued	16,598,490	–	16,543,246	–	16,543,246

Financial investments – credit related financial assets

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

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

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

Financial investments – amortised cost

The fair value for trust and asset management plans measured at amortised cost is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

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

Debt securities issued

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

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

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

30 June 2021	Level 1	Level 2	Level 3	Total
Customer loans - discounted bills	-	-	5,336,479	5,336,479
Financial investments – fair value through profit or loss	2,401,803	10,550,781	147,699	13,100,283
Financial investments – FVOCI	-	9,431,584	-	9,431,584
Total	2,401,803	19,982,365	5,484,178	27,868,346
31 December 2020	Level 1	Level 2	Level 3	Total
Customer loans - discounted bills	-	-	4,778,348	4,778,348
Financial investments – fair value through profit or loss	1,946,826	8,401,872	6,135,255	16,483,953
Financial investments – FVOCI	-	8,100,931	-	8,100,931
Total	1,946,826	16,502,803	10,913,603	29,363,232

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2021
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis (continued)

Specific valuation techniques used to value financial instruments include:

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

Movement of Level – 3 valuation methodology

	Financial investments – fair value through profit or loss	Customer loans – discounted bills
Balance at 1 January 2021	6,135,255	4,778,348
Additions	2,322,444	2,905,397
Disposals and settlement	(8,310,000)	(2,347,266)
Balance at 30 June 2021	147,699	5,336,479
Total gains for the period included in profit and loss for financial assets held as at 30 June 2021	67,564	–

	Financial investments – fair value through profit or loss	Customer loans – discounted bills
Balance at 1 January 2020	30,996	1,499,648
Total gains or losses		
– Current profit and loss	4,259	–
Additions	12,400,000	4,778,348
Disposals and settlement	(6,300,000)	(1,499,648)
Balance at 31 December 2020	6,135,255	4,778,348
Total gains for the year included in profit and loss for financial assets held as at 31 December 2020	30,503	–

41 SUBSEQUENT EVENTS

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

Definitions

“Articles of Association” or “Articles”	the articles of association of the Bank, as amended from time to time
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Bank”, “our Bank”, “we” or “us”	Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange
“IAS”	International Accounting Standards and its interpretations
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Latest Practicable Date”	August 26, 2021, being the latest practicable date for the purpose of containing certain information in this report before this report is printed
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange



Definitions

“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Reporting Period”	six months ended June 30, 2021
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	the domestic shares and H shares of the Bank
“Supervisor(s)”	the supervisor(s) of the Bank



泸州银行股份有限公司
LUZHOU BANK CO., LTD.