

CZBANK 浙商银行

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

Stock Code: 2016

Stock Code of Preference Shares: 4610

Interim Report 2017





IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

The 10th meeting of the fourth session of the Board of the Company, held on August 24, 2017, approved this interim report. The Company has 17 Directors, among which 14 Directors attended the meeting in person, and Mr. Hu Tiangao, Ms. Lou Ting and Mr. Zheng Jindu had authorized Ms. Gao Qinhong, Ms. Gao Qinhong and Mr. Tong Benli to attend the meeting on their behalf, respectively, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association. 11 Supervisors of the Company attended the meeting.

Approved by 2016 annual general meeting held on May 31, 2017, the Company has paid the final dividend for 2016 of RMB1.70 per 10 shares (tax inclusive) to the shareholders of ordinary shares whose names appear on the register after the closing of trading as of June 20, 2017. The total dividend declared was RMB3.053 billion. The Company neither declares interim dividend for 2017 nor makes any transfer from reserves to share capital.

Unless otherwise illustrated in this report, the currency for amounts herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail if any ambiguities arise from the understanding of the Chinese and English texts.

The interim financial report for 2017 of the Company is unaudited.

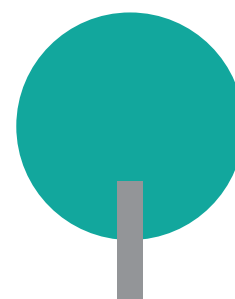
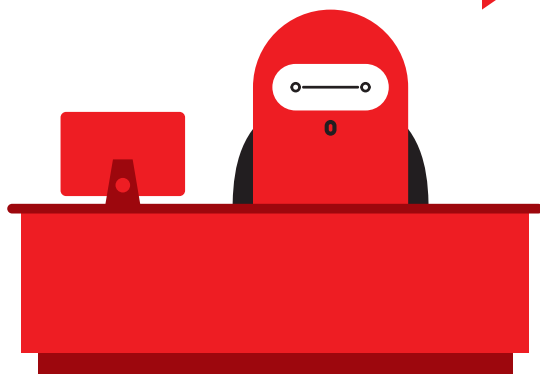
Shen Renkang (Chairman of the Bank), Liu Xiaochun (President of the Bank), Liu Long (Chief Financial Officer of the Bank) and Jing Feng (Director of the Financial Department) confirm that the financial report in this report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed "Management Discussion and Analysis – Risk Management" of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

China Zheshang 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 and/or deposit-taking business in Hong Kong.





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DEFINITIONS

“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“Articles of Association”:	the articles of association of China Zheshang Bank Co., Ltd.
“Shareholder(s)”:	the shareholder(s) of ordinary shares of the Company
“Board” or “Board of Directors”:	the board of directors of the Company
“Board of Supervisors”:	the board of supervisors of the Company
“Senior Management”	the senior management of the Company
“Director(s)”:	the director(s) of the Company
“Supervisor(s)”:	the supervisor(s) of the Company
“CBRC”:	China Banking Regulatory Commission
“CSRC”:	China Securities Regulatory Commission
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Company Law”:	the Company Law of the People’s Republic of China
“Commercial Banking Law”:	The Commercial Banking Law of the People’s Republic of China
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”:	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
“Domestic Shares”:	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in RMB
“H Shares”:	overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars. Such shares of the Company are listed and traded on the Hong Kong Stock Exchange



Offshore Preference Shares:	the US\$2,175,000,000 Non-Cumulative Perpetual Offshore Preference Shares (Stock Code 4610) at the dividend yield of 5.45% issued by the Company on March 29, 2017
“Share(s)”:	Domestic Shares and H Shares of the Company
“RMB” or “Renminbi”:	Renminbi, the lawful currency of the PRC
“HKD” or “HK\$” or “Hong Kong dollars” or “HK dollars”:	Hong Kong dollars, the lawful currency of Hong Kong
Zheyin Financial Leasing:	Zhejiang Zheyin Financial Leasing Co., Ltd., a subsidiary of the Company, in which the Company held 51% of equity interest
The Group:	the Company and its subsidiary
“Third Five-Year” plan:	Development Plan for 2016 to 2020 of China Zheshang Bank Co., Ltd.

NEW MEMBER OF CZBANK

Hello, I'm RedO

CZBANK CHIEF FINDING OFFICER



By virtue of brand characteristics of "Holistic, Agile and Vibrant", the newly upgraded CZBANK brand is embracing the era and triggering the financial vitality to create the image of the era's innovator with more vivid spirit of the times and mode of operation. In view of this, CZBANK convened a press conference of new experience in Beijing on March 24, 2017 and launched the first brand logo – Chief Finding Officer RedO. RedO is evolved from the horns in the CZBANK Logo, and is an important part of the brand image of CZBANK.

PROFILE

Date of Birth: March 24, 2017 🎂

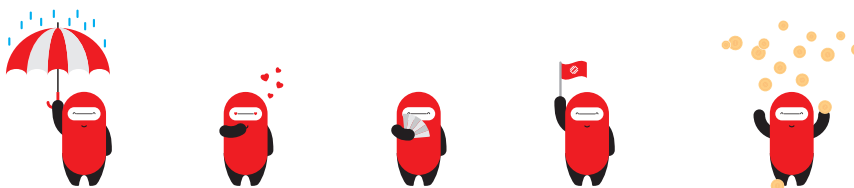
Title: CZBANK Chief Finding Officer

Personality features: Enjoying innovation and cool technology; brave, taking delight in experiencing the emerging lifestyle; being willing to talk about life, the ambition, in particular talking about financial freedom; always presenting sharp comments, and flattering himself as a popular person in the web celebrity group.

Responsibilities: For CZBANK, RedO is not a simple cartoon image.

- 🔴 He represents the "correct opener" of the future bank of CZBANK, responsible for discovering emerging scenes, new demands, new customers and new products;
- 🔴 He is responsible for delivering interesting and vital financial knowledge, playing a scenarized role, assisting to recommend various new products and services, performing community management and derivatives development, and shortening the online and offline distance with customers;
- 🔴 He is the link between CZBANK and customers, especially the youngs, enabling the high-end finance to be user-friendly, so as to bring customers better experience!

This is also an important manifestation that CZBANK changes for the customers and the future.



1. Company name in Chinese:	浙商银行股份有限公司(Abbreviation in Chinese: 浙商银行)
Company name in English:	CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)
2. Legal Representative:	Shen Renkang
3. Registered and office address:	No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC
Postcode:	310006
E-mail:	ir@czbank.com
Website:	www.czbank.com
Customer service hotline:	95527
Tel for investor relations management:	86-571-88268966
Fax:	86-571-87659826
4. Principal place of business in Hong Kong:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
5. Authorized representatives:	Xu Renyan, Liu Long
6. Secretary to the Board:	Liu Long
Joint company secretaries:	Liu Long, Wong Yat Tung
7. H Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	2016
Offshore Preference Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZB 17USDPREF
Stock code:	4610
8. Share registrar:	
H Shares:	Computershare Hong Kong Investor Services Limited Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Domestic Shares:	China Securities Depository and Clearing Corporation Limited Building A, Hengao Centre, No.17, Taipingqiao Street, Xicheng District, Beijing

9. Legal advisers:	
As to PRC Laws:	Zhejiang T&C Law Firm
As to Hong Kong Laws:	Freshfields Bruckhaus Deringer
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10. Compliance Adviser:	ABCI Capital Limited
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11. Accounting firms engaged by the Company:	
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP Office address: 11/F, PricewaterhouseCoopers Center, No. 202 Hubin Road, Shanghai Signing accountants: Zhu Yu, Ye Jun
International auditor:	PricewaterhouseCoopers Office address: 22/F, Prince's Building, Central, Hong Kong
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12. Place of maintenance of this report:	Office of the Board of the Company (No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC)
Website of Hong Kong Stock Exchange for publishing this report:	www.hkexnews.hk
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13. Other information about the Company:	Uniform social credit code: 91330000761336668H Financial institution license serial number: B0010H133010001 Registration date: July 26, 2004

(The financial data and indicators set forth in this interim report are prepared in accordance with International Financial Reporting Standards and presented in RMB, unless otherwise specified)

KEY FINANCIAL DATA AND INDICATORS

Operating results (RMB'000)	January to	January to	Period-on-period
	June 2017	June 2016	Increase/Decrease
			(%)
Operating income	17,948,781	15,964,375	12.43
Profit before income tax	7,310,343	6,245,984	17.04
Net profit attributable to shareholders of the Company	5,613,405	4,734,822	18.56

Scale indicators (at the end of the reporting period, RMB'000)	June 30,	December 31,	Period-on-period
	2017	2016	Increase/Decrease
			(%)
Total assets	1,453,290,294	1,354,854,519	7.27
Total loans and advances to customers	530,807,445	459,493,053	15.52
Total liabilities	1,367,476,092	1,287,379,141	6.22
Customer deposits	803,067,535	736,243,698	9.08
Equity attributable to shareholders of the Company	84,355,390	67,475,378	25.02

Per share (RMB)	January to	January to	Period-on-period
	June 2017	June 2016	Increase/Decrease
Basic earnings per share attributable to shareholders of the Company	0.31	0.29	Increase by RMB0.02
Diluted earnings per share attributable to shareholders of the Company	0.31	0.29	Increase by RMB0.02
Net assets per share at the end of the period attributable to shareholders of the Company	3.86	3.51	Increase by RMB0.35

FINANCIAL SUMMARY

	January to June 2017	January to December 2016	January to June 2016	Period-on-period Increase/Decrease
Profitability indicators (%)				
Return on average total assets	0.80*	0.85	0.86*	Decrease by 0.06 percentage point
Return on average equity	16.54*	17.34	16.88*	Decrease by 0.34 percentage point
Net interest margin	1.75*	2.07	2.10*	Decrease by 0.35 percentage point
Net interest spread	1.57*	1.89	1.91*	Decrease by 0.34 percentage point
Proportion of net non-interest income	31.00	25.03	25.07	Increase by 5.93 percentage points
Cost-to-income ratio ⁽¹⁾	29.64	27.71	25.29	Increase by 4.35 percentage point

	June 30, 2017	December 31, 2016	June 30, 2016	Period-on-period Increase/Decrease
Asset quality indicators (%)				
Non-performing loan ratio ⁽²⁾	1.39	1.33	1.33	Increase by 0.06 percentage point
Allowance to non-performing loans ⁽³⁾	249.17	259.33	229.27	Decrease by 10.16 percentage points
Allowance to total loans ⁽⁴⁾	3.45	3.44	3.06	Increase by 0.01 percentage point

	June 30, 2017	December 31, 2016	June 30, 2016	Period-on-period Increase/Decrease
Capital adequacy indicators (%)				
Core tier-one capital adequacy ratio	8.27	9.28	10.16	Decrease by 1.01 percentage point
Tier-one capital adequacy ratio	10.05	9.28	10.16	Increase by 0.77 percentage point
Capital adequacy ratio	12.38	11.79	11.72	Increase by 0.59 percentage point

Notes: * represents an annualized ratio.

- (1) Operating expenses (excluding tax and surcharges) divided by operating income.
- (2) Balance of non-performing loans divided by total loans and advances to customers.
- (3) Balance of allowance for impairment losses divided by balance of non-performing loans.
- (4) Balance of allowance for impairment losses divided by total loans and advances to customers.



(I) DEVELOPMENT STRATEGIES

Overall Goal of “Two Most”: The goal is to become the most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means to be a leading joint-stock bank that provides target customers with first-class professional service, possess distinct competitive advantages on the ability for innovation, risk control, service provision in the market and value creation, match the identity of the national joint-stock commercial bank in term of scales, as well as provide support for sustainable development of professional ability.

“Zhejiang’s Most Important Financial Platform” refers to a representative financial group in Zhejiang featured by comprehensive functions, leading scale, good performance and sound reputation, and at the forefront of resources deployment, efficient service and model innovation, so as to become the strategic partner of all levels of governments, financial institutions, core enterprises and a large number of businessmen in Zhejiang.

Being the most competitive commercial bank is the capability foundation for being the most important financial platform, while being the most important financial platform is the objective manifestation and significant support of being the most competitive commercial bank. The “Two Most” are causally interrelated.

Full-asset class operation strategy: The full-asset class operation strategy is a systematic operation strategy covering the front, middle and back office management and coordination, as well as a contingency operation system with clear orientation, flexible mechanism, diversified strategy and rich tools, which initiatively accommodates to the highly uncertain and fast-changing market environment.

At the internal business level, the Bank will break through the limitation of mainly focusing on credit assets, and make adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets on and off the balance sheet according to the changes in market and customer demand at any time, so as to reshape the balance sheet of the Bank through asset-driven-liability mode; at the customer service level, the Bank will break the boundaries of assets, liabilities and services, as well as companies, peers, personal businesses and products, and integrate the financial activities into businesses and life of our customers to optimize their balance sheets, through which the Bank will form the competitiveness of quickly adapting to changes in the market and customer demand, thus to open up a diversified profit source and effectively balance the impacts of economic cycles and business fluctuations on our asset size and profitability, with the aim of achieving the leading growth in the industry, and ultimately reaching the overall objective of “Two Most”.

Strategic Positioning: The Company will innovate and cooperate, focus on customer base and business under the customer-centered concept; response flexibly to build a comprehensive, digital and horizontal organic organization; and keep abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths.

Innovate and cooperate, focus on customer base and business under the customer-centered concept

The Company will adhere to innovation and cooperation and the customer-centered concept, consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the “horse racing mechanism”, thereby enhance competitiveness across the Bank.

Response flexibly to build a comprehensive, digital and horizontal organic organization

The flexible and responsive organic organization will be formed based on business systems and support systems, which will promote internal business synergies and external integrated operations, achieve digital transformation linking internal and external business throughout front, middle and back office, and build a horizontal organization with streamlined structure and intensive management pattern.

Keep abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths

Being abreast of the industry’s highest standards, China Zheshang Bank will gradually form its benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building the featured competitive strengths and striving to rank among the second-tier joint-stock banks at the end of “Third Five-Year”.

(II) ANALYSIS OF OVERALL OPERATING PERFORMANCE

Stable increase of business scale

As at the end of the reporting period, total assets of the Group amounted to RMB1,453.290 billion, representing an increase of RMB98.436 billion or 7.27% as compared to that at the end of last year, of which net loans and advances to customers increased by RMB68.803 billion or 15.51% as compared to that at the end of last year, and total liabilities amounted to RMB1,367.476 billion, representing an increase of RMB80.097 billion or 6.22% as compared to that at the end of last year, of which customer deposits amounted to RMB803.068 billion, representing an increase of RMB66.824 billion or 9.08% as compared to that at the end of last year.

Continued enhancement of operating efficiencies

During the reporting period, operating income of the Group amounted to RMB17.949 billion, representing an increase of RMB1.984 billion or 12.43% on a period-on-period basis, of which net non-interest income amounted to RMB5.564 billion, representing an increase of 39.02% on a period-on-period basis, and the proportion of net non-interest income increased by 5.93 percentage points on a period-on-period basis. Net profit amounted to RMB5.602 billion, representing an increase of RMB867 million or 18.32% on a period-on-period basis.

Maintaining sound asset quality

As at the end of the reporting period, the balance of non-performing loans of the Group amounted to RMB7.359 billion, representing an increase of RMB1.257 billion as compared to that at the end of last year; non-performing loan ratio was 1.39%, representing an increase of 0.06 percentage points as compared to that at the end of last year; allowance to non-performing loans at the end of the period was 249.17%, representing a decrease of 10.16 percentage points as compared to that at the end of last year; the allowance to total loan ratio was 3.45%, representing an increase of 0.01 percentage points as compared to that at the end of last year.

Stable in capital adequacy ratio

As at the end of the reporting period, capital adequacy ratio of the Group amounted to 12.38%, representing an increase of 0.59 percentage points as compared to that at the end of last year; tier-one capital adequacy ratio amounted to 10.05%, representing an increase of 0.77 percentage points as compared to that at the end of last year; and core tier-one capital adequacy ratio amounted to 8.27%.

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of statement of income

In the first half of 2017, under the guidance of the vision of “Two Most”, the Group actively adjusted the business structure, increased revenue and reduced expenses and strictly controlled the risks, as a result of which, operating efficiency had generated a sustainable growth. In the first half of this year, the Group achieved a net profit of RMB5.602 billion, increasing by 18.32% compared with the same period of last year; the annualized average return on total assets was 0.80% and the annualized average return on equity was 16.54%. Operating income was RMB17.949 billion, increasing by 12.43%, including, among others, net interest income of RMB12.385 billion, increasing by 3.53%; net non-interest income of RMB5.564 billion, increasing by 39.02%. Operating expense was RMB5.431 billion, increasing by 18.35%; cost-income ratio was 29.64%. Provision for impairment loss of assets was RMB5.207 billion, increasing by 1.52%. The income tax expense was RMB1.708 billion, increasing by 13.03%.

Changes of the main items in the income statement

In thousands of RMB, except percentages

Item	January to June 2017	January to June 2016	Amount of increase	Growth rate (%)
Net interest income	12,384,617	11,961,836	422,781	3.53
Net non-interest income	5,564,164	4,002,539	1,561,625	39.02
Operating income	17,948,781	15,964,375	1,984,406	12.43
Less: operating expense	5,431,360	4,589,093	842,267	18.35
Less: impairment loss of assets	5,207,078	5,129,298	77,780	1.52
Profit before tax	7,310,343	6,245,984	1,064,359	17.04
Less: income tax expenses	1,708,126	1,511,162	196,964	13.03
Net profit	5,602,217	4,734,822	867,395	18.32
Attributable to:				
the shareholders of the Company	5,613,405	4,734,822	878,583	18.56
Non-controlling interests	(11,188)	–	(11,188)	–

(1) Net interest income

In the first half of 2017, net interest income was RMB12.385 billion, representing an increase of RMB423 million or 3.53% as compared to the same period of last year, accounting for 69.00% of operating income. Interest income was RMB30.071 billion, representing an increase of RMB3.407 billion or 12.78%; and interest expense was RMB17.686 billion, representing an increase of RMB2.985 billion or 20.30%. Net interest spread and net interest margin were 1.57% and 1.75%, respectively, representing a decrease of 34 bps and 35 bps as compared to the same period of last year, respectively.

Average yields on interest-earning assets and average interest rate of interest-bearing liabilities

In thousands of RMB, except percentages

Item	January to June 2017			January to June 2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	529,433,600	12,783,142	4.87	411,433,408	10,223,271	5.00
Investments ⁽¹⁾	682,537,782	14,568,025	4.30	578,775,567	14,647,935	5.09
Due from banks and other financial institutions ⁽²⁾	96,544,299	1,830,053	3.82	67,641,267	1,105,632	3.29
Balances with central bank ⁽³⁾	122,617,546	889,565	1.46	89,373,626	686,631	1.54
Total interest-earning assets	1,431,133,227	30,070,785	4.24	1,147,223,868	26,663,469	4.67

MANAGEMENT DISCUSSION AND ANALYSIS

Item	January to June 2017			January to June 2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	746,312,543	7,121,105	1.92	572,420,385	6,197,698	2.18
Due to banks and other financial institutions ⁽⁴⁾	464,733,032	8,300,745	3.60	406,556,380	6,782,027	3.35
Debt securities issued ⁽⁵⁾	126,647,917	2,264,318	3.61	89,609,952	1,721,908	3.86
Total interest-bearing liabilities	1,337,693,492	17,686,168	2.67	1,068,586,717	14,701,633	2.77
Net interest income		12,384,617			11,961,836	
Net interest spread (%)			1.57			1.91
Net interest margin (%)			1.75			2.10

Notes:

- (1) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.
- (2) Due from banks and other financial institutions include financial assets purchased under resale agreements.
- (3) Balances with central bank include mandatory reserve of deposits, surplus reserve of deposits and foreign exchange reserve of deposits.
- (4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.
- (5) Debt securities issued include issued inter-bank certificates of deposits, financial bond and subordinated bond.

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between January to June 2017 and January to June 2016		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Factors for increase (decrease)			
Interest-earning assets			
Loans and advances to customers	2,895,623	(335,752)	2,559,871
Investments	2,578,219	(2,658,129)	(79,910)
Due from banks and other financial institutions	468,064	256,357	724,421
Balances with central bank	252,794	(49,860)	202,934
Changes in interest income	6,194,700	(2,787,384)	3,407,316
Interest-bearing liabilities			
Customer deposits	1,860,380	(936,973)	923,407
Due to banks and other financial institutions	949,009	569,709	1,518,718
Debt securities issued	704,966	(162,556)	542,410
Changes in interest expense	3,514,355	(529,820)	2,984,535
Changes in net interest income	2,680,345	(2,257,564)	422,781

Notes:

- (1) Change in volume represents the average balance for the reporting period minus the average balance for the same period of last year, multiplied by the average yield or average cost for the same period of last year.
- (2) Change in interest rate represents the average yield or average cost for the reporting period minus the average yield or average cost for the same period of last year, multiplied by the average balance for the reporting period.
- (3) Net increase or decrease represents interest income (expense) for the reporting period minus interest income (expense) for the same period of last year.

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB12.783 billion, representing an increase of RMB2.560 billion or 25.04% as compared to the same period of last year, mainly due to an increase of RMB118.000 billion in average balance of loans and advances to customers. The decline in the average yield of loans and advances to customers was mainly due to “business tax to value-added tax” with price and tax separated and the re-pricing of existing loans during the reporting period following the interest rate cuts in 2015.

Analysis of the average yield on loans and advances to customers

In thousands of RMB, except percentages

Item	January to June 2017			January to June 2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	430,875,012	9,879,909	4.62	345,106,403	8,112,102	4.73
Personal loans and advances	98,558,588	2,903,233	5.94	66,327,005	2,111,169	6.40
Total loans and advances to customers	529,433,600	12,783,142	4.87	411,433,408	10,223,271	5.00

Note:

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB14.568 billion, representing a decrease of RMB80 million or 0.55% as compared to the same period of last year, primarily due to the decrease in the return on investment as compared with last year, partially offset by the increased scale of investment.

Interest income from banks and other financial institutions

Interest income from banks and other financial institutions was RMB1.830 billion, representing an increase of RMB724 million or 65.52% as compared to the same period of last year, primarily because the interest rates and the scale of the amounts due from banks and other financial institutions increased.

Interest income from balances with central bank

Interest income from balances with central bank amounted to RMB890 million, representing an increase of RMB203 million or 29.56% as compared to the same period of last year, primarily due to the increase in customer deposits which led to an increase in the mandatory and surplus reserve deposits.

(3) Interest expense

Interest expense on deposits

Interest expense on deposits amounted to RMB7.121 billion, representing an increase of RMB923 million or 14.90% as compared to the same period of last year, accounting for 40.26% of the total interest expenses. Such increase was primarily due to the increase of RMB173.892 billion in the average balance of deposits.

Interest expense on customer deposits

In thousands of RMB, except percentages

Item	January to June 2017			January to June 2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	449,183,137	5,834,458	2.62	380,255,517	5,429,413	2.87
Demand	258,396,088	875,342	0.68	172,433,607	567,916	0.66
Subtotal	707,579,225	6,709,800	1.91	552,689,124	5,997,329	2.18
Personal deposits						
Time	30,862,442	396,606	2.59	15,161,955	192,315	2.55
Demand	7,870,876	14,699	0.38	4,569,306	8,054	0.35
Subtotal	38,733,318	411,305	2.14	19,731,261	200,369	2.04
Total	746,312,543	7,121,105	1.92	572,420,385	6,197,698	2.18

(1) Other deposits include remittance payables, temporary deposits, outward remittance and structured deposits, etc.

Interest expense on amounts due to banks and other financial institutions

Interest expense on amounts due to banks and other financial institutions amounted to RMB8.301 billion, representing an increase of RMB1.519 billion or 22.39% as compared to the same period of last year, primarily due to the increase of RMB58.177 billion in average balance.

Debt securities issued

Interest expense on debt securities issued amounted to RMB2.264 billion, representing an increase of RMB542 million or 31.50% as compared to the same period of last year, primarily due to an increase in the issuance of inter-bank certificates of deposits.

(4) Net non-interest income

Net non-interest income in the first half of 2017 amounted to RMB5.564 billion, representing an increase of RMB1.562 billion or 39.02% as compared to the same period of last year. Among which, the net fee and commission income was RMB5.090 billion, representing an increase of 58.72%, while other net non-interest income was RMB474 million.

Net fee and commission income

In thousands of RMB, except percentages

Item	January to June 2017	January to June 2016	Amount of increase or decrease	Growth rate (%)
Agency service	142,589	211,410	(68,821)	(32.55)
Asset management service	3,913,577	2,260,518	1,653,059	73.13
Custodian and other fiduciary service	219,292	71,391	147,901	207.17
Credit commitment	223,215	283,331	(60,116)	(21.22)
Underwriting service	246,103	249,393	(3,290)	(1.32)
Settlement business	42,841	62,153	(19,312)	(31.07)
Others	450,849	158,808	292,041	183.90
Fee and commission income	5,238,466	3,297,004	1,941,462	58.89
Less: Fee and commission expense	148,718	90,351	58,367	64.60
Net fee and commission income	5,089,748	3,206,653	1,883,095	58.72

Fee income from agency service was RMB143 million, representing a decrease of RMB69 million as compared to the same period of last year, primarily because the Company proactively adjusted our business mix according to the changing market environment.

Fee income from asset management service was RMB3.914 billion, representing an increase of RMB1.653 billion as compared to the same period of last year, primarily due to the increased scale of asset management and service.

Fee income from custodian and other fiduciary service was RMB219 million, representing an increase of RMB148 million as compared to the same period of last year, primarily due to the increased scale of the asset custodian service.

Fee income from credit commitment business was RMB223 million, representing a decrease of RMB60 million as compared to the same period of last year, primarily due to the adjustment of business model of off-balance sheet, such as loan commitments.

Other net non-interest income

In thousands of RMB, except percentages

Item	January to June 2017	January to June 2016	Amount of increase or decrease	Growth rate (%)
Net trading gains/(losses)				
– Trading financial instruments	(62,701)	(66,925)	4,224	–
– Derivative financial instruments	(19,168)	102,100	(121,268)	(118.77)
– Exchange differences	(140,331)	157,275	(297,606)	(189.23)
Net gains on financial investments	547,292	584,230	(36,938)	(6.32)
Other operating income	149,324	19,206	130,118	677.49
Total	474,416	795,886	(321,470)	(40.39)

Other net non-interest income was RMB474 million, representing a decrease of RMB321 million as compared to the same period of last year, primarily due to the decrease in derivative financial instruments differences and exchange differences during the reporting period.

(5) Operating expenses

In thousands of RMB, except percentages

Item	January to June 2017	January to June 2016	Amount of increase or decrease	Growth rate (%)
Staff costs	3,564,002	2,819,088	744,914	26.42
General and administrative expenses	1,345,559	885,979	459,580	51.87
Tax and surcharges	112,114	552,117	(440,003)	(79.69)
Rental expenses	256,497	200,593	55,904	27.87
Depreciation and amortization	144,981	113,885	31,096	27.30
Others	8,207	17,431	(9,224)	(52.92)
Total	5,431,360	4,589,093	842,267	18.35

Operating expenses amounted to RMB5.431 billion, representing a period-on-period increase of 18.35%, primarily due to our business expansion, the increased number of outlets and employees and the increased strategic business investment.

(6) Impairment losses on assets

In thousands of RMB, except percentages

Item	January to June 2017	January to June 2016	Amount of increase or decrease	Growth rate (%)
Loans and advances to customers				
– Collectively assessed	2,121,313	2,132,032	(10,719)	(0.50)
– Individually assessed	995,728	1,534,941	(539,213)	(35.13)
Debt instruments classified as receivables	2,020,051	1,462,387	557,664	38.13
Others	69,986	(62)	70,048	–
Total	5,207,078	5,129,298	77,780	1.52

The impairment losses on assets were RMB5.207 billion, representing a period-on-period increase of 78 million or 1.52%.

(7) Income tax expenses

The income tax expenses were RMB1.708 billion, representing a period-on-period increase of RMB197 million or 13.03%, and the effective tax rate was 23.37%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see "Notes to the Financial Statements – 12 Income Tax Expense".

(8) Segment information

Segment operating results by business line

In thousands of RMB, except percentages

Item	January to June 2017		January to June 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
	Corporate banking	9,167,501	51.08	7,793,429
Retail banking	1,843,453	10.27	1,335,028	8.36
Treasury business	6,821,491	38.01	6,818,357	42.71
Others	116,336	0.64	17,561	0.11
Total operating income	17,948,781	100.00	15,964,375	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	January to June 2017		January to June 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
	Yangtze River Delta region	12,485,710	69.56	11,007,636
Bohai Rim region	2,160,750	12.04	2,325,562	14.57
Pearl River Delta region	799,030	4.45	699,398	4.38
Midwestern China	2,503,291	13.95	1,931,779	12.10
Total operating income	17,948,781	100.00	15,964,375	100.00

2. Analysis on Statement of Financial Position

In the first half of 2017, the Group, according to the changes in external macroeconomic environment, actively adapted to rapidly changing market needs, further deepen our full-asset class operation strategy, actively adjusted our business structure, increased the allocation for strategic customers and strategic assets, and optimized and adjusted the regional development layout. Our operating capacity was further improved, structure of assets and liabilities was continuously optimized, liquidity and market risk management were further strengthened, and resource allocation efficiency of assets and liabilities was steadily improved.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB1,453.290 billion, representing an increase of RMB98.436 billion or 7.27% as compared to that at the end of last year, including an increase in net loans and advances to customers of RMB68.803 billion or 15.51% and an increase in investments of RMB34.048 billion or 5.13%. In terms of the structure, net loans and advances to customers accounted for 35.26% of total assets, investments accounted for 47.98%, and cash and balances with central bank accounted for 8.95%.

Assets utilization

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	530,807,445	–	459,493,053	–
Less: Allowance for Impairment losses	(18,335,425)	–	(15,824,396)	–
Net loans and advances	512,472,020	35.26	443,668,657	32.75
Investments ⁽¹⁾	697,215,966	47.98	663,167,801	48.95
Cash and balances with central bank	130,018,395	8.95	124,269,106	9.17
Precious metal	13,711,912	0.94	3,952,824	0.29
Due from banks and other financial Institutions	69,287,199	4.77	98,442,129	7.26
Others	30,584,802	2.10	21,354,002	1.58
Total assets	1,453,290,294	100.00	1,354,854,519	100.00

Note:

- (1) It includes financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

Loans and advances to customers

In the first half of 2017, the Bank, according to changes in the macroeconomic environment and financial supervision requirements, reasonably controlled the volume, direction and pace of credit disbursements and by combining the optimization of credit increment and stock structure adjustment, supported the development of real economy, continued to deepen financial services to small and micro enterprises, increased efforts on innovation, and attached importance to credit structure adjustment and risk prevention and control simultaneously. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB530.807 billion, representing an increase of RMB71.314 billion or 15.52% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	411,605,956	77.54	353,200,030	76.87
Discounted bills	9,949,834	1.87	18,024,442	3.92
Personal loans	109,251,655	20.58	88,268,581	19.21
Total	530,807,445	100.00	459,493,053	100.00

Corporate loans

Driven by the full-asset class operation strategy in a comprehensive manner, the Bank can meet customers' financing needs via diversified products, and promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As at the end of the reporting period, total corporate loans amounted to RMB411.606 billion, representing an increase of 16.54% as compared to that at the end of last year.

Discounted bills

As at the end of the reporting period, total discounted bills amounted to RMB9.950 billion, representing a decrease of 44.80% as compared to that at the end of last year.

Personal loans

The Bank optimized its asset structure and continued to promote the steady growth of personal loans, and expanded residential mortgage loans, personal business loans and credit card loans taking into account the market demand and risk management control. As at the end of the reporting period, total personal loans amounted to RMB109.252 billion, representing an increase of 23.77% as compared to that at the end of last year.

Investments

In the first half of 2017, the Bank strongly supported the development of real economy, optimized investment portfolio and structure and, on the basis of ensuring liquidity and risk control, moderately increased our investments and constantly optimized investment portfolios. As at the end of the reporting period, total investments amounted to RMB697.216 billion, representing an increase of 5.13% as compared to that at the end of last year.

Investment composition by purpose of holding

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value				
through profit or loss	79,273,757	11.37	23,131,819	3.49
Available for sale financial assets	76,002,376	10.90	61,466,941	9.27
Held-to-maturity investments	52,695,158	7.56	41,532,932	6.26
Debt instruments classified as receivables	489,244,675	70.17	537,036,109	80.98
Total	697,215,966	100.00	663,167,801	100.00

As at the end of the reporting period, financial assets at fair value through profit or loss of the Bank amounted to RMB79.274 billion, representing an increase of 242.70% as compared to that at the end of last year; available for sale financial assets amounted to RMB76.002 billion, representing an increase of 23.65% as compared to that at the end of last year; held-to-maturity investments amounted to RMB52.695 billion, representing an increase of 26.88% as compared to that at the end of last year; and debt instruments classified as receivables amounted to RMB489.245 billion, representing a decrease of 8.90% as compared to that at the end of last year.

(2) Liabilities

At the end of June 2017, total liabilities of the Group amounted to RMB1,367.476 billion, representing an increase of RMB80.097 billion or 6.22% as compared to that at the end of last year.

Liabilities Composition

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	803,067,535	58.73	736,243,698	57.19
Due to banks and other financial Institutions	359,024,730	26.25	394,108,821	30.61
Financial liabilities at fair value through profit or loss	3,151,701	0.23	13,875,609	1.08
Debt securities issued	168,145,972	12.30	114,595,250	8.90
Others	34,086,154	2.49	28,555,763	2.22
Total liabilities	1,367,476,092	100.00	1,287,379,141	100.00

Customer deposits

The Bank attached importance to deposit organization and management, actively responded to the further advancement of liberalization of interest rates, increasingly fierce competition among peers, rapid development of Internet financial services and other external situations, took full advantage of the comprehensive financial services, improved the differentiated pricing mechanism for deposit interest rates, raised the debt stability, strengthened the management of financing channels, improved the diversification of financing sources and further optimized financing structures.

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	295,586,549	36.81	256,737,966	34.87
Time	447,114,704	55.68	443,686,661	60.26
Sub-total	742,701,253	92.48	700,424,627	95.13
Individual deposits				
Demand	14,475,197	1.80	7,501,155	1.02
Time	39,055,061	4.86	26,046,656	3.54
Sub-total	53,530,258	6.67	33,547,811	4.56
Other deposits	6,836,024	0.85	2,271,260	0.31
Total	803,067,535	100.00	736,243,698	100.00

As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB803.068 billion, representing an increase of RMB66.824 billion or 9.08% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by 42.277 billion or 6.04%; and individual deposits increased by RMB19.982 billion or 59.56%. With respect to term structures, time deposits increased by RMB16.436 billion or 3.50%; and demand deposits increased by RMB45.823 billion or 17.34%.

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Company amounted to RMB84.355 billion in total, representing an increase of RMB16.880 billion or 25.02% as compared to that at the end of last year. Please see "Financial Statements – Condensed Interim Consolidated Statement of Changes in Equity".

(IV) LOAN QUALITY ANALYSIS

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	512,336,672	96.52	443,567,947	96.53
Special mention	11,112,210	2.09	9,823,085	2.14
Non-performing	7,358,563	1.39	6,102,021	1.33
Substandard	3,390,746	0.64	2,934,979	0.64
Doubtful	2,745,112	0.52	2,288,033	0.50
Loss	1,222,705	0.23	879,009	0.19
Total	530,807,445	100.00	459,493,053	100.00

The loan quality of our Group was kept at an excellent level, but as influenced by the external economic environment, our Group saw a certain increase in the balances of loans classified as non-performing and special mention. As of the end of the reporting period, according to the five-category classification of supervision system, the normal loans amounted to RMB512.337 billion, representing an increase of RMB68.769 billion as compared to that at the end of last year, accounting for 96.52% of total loans and advances to customers. Loans classified as special mention were RMB11.112 billion, representing an increase of RMB1.289 billion as compared to that at the end of last year, accounting for 2.09% of total loans and advances to customers. The non-performing loans were RMB7.359 billion, representing an increase of RMB1.257 billion as compared to that at the end of last year, with a non-performing loan ratio of 1.39%, representing an increase of 0.06 percentage points as compared to that at the end of last year.

2. Distribution of loans and non-performing loans by business type

In thousands of RMB, except percentages

Item	June 30, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	411,605,956	77.54	6,330,945	1.54	353,200,030	76.87	5,215,673	1.48
Personal loans	109,251,655	20.58	1,027,618	0.94	88,268,581	19.21	886,348	1.00
Discounted bills	9,949,834	1.87	-	-	18,024,442	3.92	-	-
Total	530,807,445	100.00	7,358,563	1.39	459,493,053	100.00	6,102,021	1.33

As of the end of the reporting period, our non-performing corporate loans amounted to RMB6.331 billion, representing an increase of RMB1.115 billion, with a non-performing loan ratio of 1.54%, representing an increase of 0.06 percentage points as compared to the end of last year. The personal non-performing loans were RMB1.028 billion, representing an increase of RMB141 million as compared to that at the end of last year, with a non-performing loan ratio of 0.94%, representing a decrease of 0.06 percentage points as compared to the end of last year.

3. Distribution of loans and non-performing loans by industry

In thousands of RMB, except percentages

Item	June 30, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	411,605,956	77.54	6,330,945	1.54	353,200,030	76.87	5,215,673	1.48
Manufacturing	108,931,224	20.52	3,639,116	3.34	82,223,489	17.90	3,130,585	3.81
Leasing and commercial services	71,390,351	13.45	66,522	0.09	56,026,555	12.19	71,494	0.13
Wholesale and retail trade	64,793,931	12.21	859,326	1.33	64,730,164	14.09	865,783	1.34
Real estate	48,781,663	9.19	881,518	1.81	55,305,239	12.04	608,129	1.10
Administration of water conservancy, environment and public facilities	36,956,899	6.96	28,350	0.08	23,900,015	5.20	-	-
Construction	29,554,827	5.57	390,951	1.32	26,045,725	5.67	444,965	1.71
Transportation, storage and postal service	10,202,842	1.92	177,623	1.74	7,448,445	1.62	7,196	0.10
Electricity, heat, gas and water production and supply	6,849,117	1.29	43,090	0.63	6,588,230	1.43	400	0.01
Financing	6,483,750	1.22	-	-	5,358,641	1.17	-	-
Mining	4,496,234	0.85	42,308	0.94	4,857,390	1.06	50,672	1.04
Accommodation and catering	4,325,604	0.81	92,547	2.14	3,835,856	0.83	9,997	0.26
Others ⁽¹⁾	18,839,514	3.55	109,595	0.58	16,880,281	3.67	26,453	0.16
Personal loans	109,251,655	20.58	1,027,618	0.94	88,268,581	19.21	886,348	1.00
Discounted bills	9,949,834	1.87	-	-	18,024,442	3.92	-	-
Total	530,807,445	100.00	7,358,563	1.39	459,493,053	100.00	6,102,021	1.33

Note: (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education, sanitation, social security and social welfare.

In the first half of 2017, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. The differential risk prevention and control strategy was formulated for areas such as industries with excess production capacity, real estate and local government financing platforms. The Group also continued to optimize the allocation of credit resources. During the reporting period, the industry of which the balance of non-performing loans of the Group increased much was manufacturing.

4. Distribution of loans and non-performing loans by geographic region

In thousands of RMB, except percentages

Item	June 30, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta region	280,803,578	52.90	5,165,803	1.84	243,706,939	53.04	4,444,688	1.82
Midwestern China	113,419,217	21.37	1,124,731	0.99	93,867,159	20.43	687,518	0.73
Bohai Rim region	87,680,570	16.52	954,849	1.09	80,273,764	17.47	868,801	1.08
Pearl River Delta region	48,904,080	9.21	113,180	0.23	41,645,191	9.06	101,014	0.24
Total	530,807,445	100.00	7,358,563	1.39	459,493,053	100.00	6,102,021	1.33

As of the end of the reporting period, given the characters in economic pattern of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks, and supported the developmental demand of the regions where our new institutions were established. The proportion of loans in Midwestern China and Pearl River Delta region recorded a certain increase. As of the end of the reporting period, the region where the Group incurred a large volume of non-performing loans was Yangtze River Delta region, where the non-performing loan ratio increased by 0.02 percentage point as compared to the end of last year.

5. Distribution of loans and non-performing loans by security type

In thousands of RMB, except percentages

Item	June 30, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Collateralized loans	204,157,876	38.46	4,271,938	2.09	180,846,164	39.36	3,219,685	1.78
Pledged loans	88,081,046	16.60	50,864	0.06	72,495,022	15.78	39,936	0.06
Guaranteed loans	167,734,263	31.60	2,848,854	1.70	133,982,215	29.16	2,725,275	2.03
Unsecured loans	60,884,426	11.47	186,909	0.31	54,145,210	11.78	117,126	0.22
Discounted bills	9,949,834	1.87	0	0.00	18,024,442	3.92	-	-
Total	530,807,445	100.00	7,358,563	1.39	459,493,053	100.00	6,102,021	1.33

Our Group has been optimizing its customer structure continuously, innovating its business model, and strengthening the cooperation with strategic clients. As of the end of the reporting period, the pledged loans amounted to RMB88.081 billion, representing an increase of RMB15.586 billion or 21.50% as compared to that at the end of last year, primarily attributable to the rapid growth of innovative businesses of the Group, such as “bill pool” and “asset pool”; the guaranteed loans amounted to RMB167.734 billion, representing an increase of RMB33.752 billion or 25.19% as compared to that at the end of last year, primarily attributable to the continuous optimization of customer structure.

6. Ten largest borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount of loans	Percentages of total loans and advances to customers
A	Manufacturing	8,312,648	1.57
B	Manufacturing	4,000,377	0.75
C	Manufacturing	3,664,085	0.69
D	Manufacturing	2,034,090	0.38
E	Real estate	2,000,000	0.38
F	Real estate	1,990,000	0.37
G	Manufacturing	1,918,825	0.36
H	Manufacturing	1,785,000	0.34
I	Construction	1,690,000	0.32
J	Manufacturing	1,648,912	0.31
Total		29,043,936	5.47

As of the end of the reporting period, the balance of loans to the largest single borrower of the Group was RMB8.313 billion, representing 7.96% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB29.044 billion, representing 27.82% of the net capital and 5.47% of the total loans of the Group.

7. Overdue loans

In thousands of RMB, except percentages

Overdue period	June 30, 2017		December 31, 2016	
	Amount	Percentages of total loans and advances to customers	Amount	Percentages of total loans and advances to customers
Overdue by 1 to 90 days	2,156,216	0.41	1,126,320	0.25
Overdue by 90 days to one year	2,926,339	0.55	2,560,048	0.56
Overdue by one year to three years	2,447,467	0.46	1,816,149	0.40
Overdue by more than three years	37,774	0.01	12,775	0.00
Total	7,567,796	1.43	5,515,292	1.20

The balance of overdue loans amounted to RMB7.568 billion, representing an increase of RMB2.053 billion as compared to that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB5.412 billion, representing an increase of RMB1.023 billion as compared to that at the beginning of the year.

8. Loans renegotiated

The Group imposed strict and prudent management control over loan renegotiation. As of the end of the reporting period, loans and advances renegotiated amounted to RMB350 million, representing an increase of RMB63 million as compared to that at the end of last year. Specifically, loans and advances renegotiated overdue by more than three months were RMB100 million, representing a decrease of RMB21 million as compared to that at the end of last year.

9. Movements in allowance for impairment losses

In thousands of RMB

	Collectively assessed	Individually assessed	Total
Balance at the beginning of the period	13,038,063	2,786,333	15,824,396
Net impairment allowances charged to profit and loss	2,121,313	995,728	3,117,041
Unwinding of discount on allowance of the year	(13,986)	(20,251)	(34,237)
Write-offs of the year	(218,401)	(408,002)	(626,403)
Transfer out of the year	(31,407)	(25,678)	(57,085)
Recoveries	110,588	9,030	119,618
Exchange differences	(7,905)	-	(7,905)
Balance at the end of the period	14,998,265	3,337,160	18,335,425

(V) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Group capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

As of June 30, 2017, capital adequacy ratio of the Group was 12.38%, tier-one capital adequacy ratio was 10.05%, core tier-one capital adequacy ratio was 8.27%, and leverage ratio was 4.95%, all of which met regulatory requirements.

Capital Adequacy Ratio (the Group)

In thousands RMB, except percentages

Item	June 30, 2017
Core tier-one capital	69,982,200
Paid-in capital	17,959,697
Part of capital reserves that can be included	18,827,611
Surplus reserves	3,790,406
General risk reserves	17,243,730
Undistributed profits	11,959,131
Part of minority interests that can be included	201,625
Core tier-one capital deductible items	186,036
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	186,036
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	–
Net core tier-one capital	69,796,164
Other tier-one capital	14,984,547
Other tier-one capital instruments and premium	14,957,664
Part of minority interests that can be included	26,883
Net tier-one capital	84,780,711
Tier-two capital	19,635,572
Tier-two capital instruments and premium that can be included	10,000,000
Excessive allowance for loan losses	9,581,805
Part of minority interests that can be included	53,767
Tier-two capital deductible items	–
Net capital base	104,416,282
Risk-weighted assets	843,748,638
Core tier-one capital adequacy ratio	8.27%
Tier-one capital adequacy ratio	10.05%
Capital adequacy ratio	12.38%

Leverage Ratio (the Group)

In thousands of RMB, except percentages

Item	June 30, 2017
Tier-one capital	84,966,747
Tier-one capital deductible items	186,036
Net tier-one capital	84,780,711
Adjusted asset balance inside the balance sheet	1,414,481,061
Asset balance of derivative products	7,492,863
Asset balance of securities financing transactions	35,442,699
Adjusted asset balance outside the balance sheet	255,318,989
Adjusted asset balance inside and outside the balance sheet	1,712,735,612
Leverage ratio	4.95%

As of June 30, 2017, capital adequacy ratio of the Company was 12.23%, tier-one capital adequacy ratio was 9.90%, core tier-one capital adequacy ratio was 8.12%, and leverage ratio was 4.87%, all of which met regulatory requirements.

Capital Adequacy Ratio (the Company)

In thousands RMB, except percentages

Item	June 30, 2017	December 31, 2016
Core tier-one capital	69,792,219	67,706,445
Paid-in capital	17,959,697	17,959,697
Part of capital reserves that can be included	18,827,611	19,269,901
Surplus reserves	3,790,406	2,775,091
General risk reserves	17,243,730	13,242,456
Undistributed profits	11,970,775	14,459,300
Core tier-one capital deductible items	1,712,111	268,702
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	182,111	268,702
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	1,530,000	–
Net core tier-one capital	68,080,109	67,437,743
Other tier-one capital	14,957,664	–
Net tier-one capital	83,037,773	67,437,743
Tier-two capital	19,515,985	18,206,396
Tier-two capital instruments and premium that can be included	10,000,000	10,000,000
Excessive allowance for loan losses	9,515,985	8,206,396
Tier-two capital deductible items	–	–
Net capital base	102,553,758	85,644,139
Risk-weighted assets	838,417,207	726,578,153
Core tier-one capital adequacy ratio	8.12%	9.28%
Tier-one capital adequacy ratio	9.90%	9.28%
Capital adequacy ratio	12.23%	11.79%

Leverage Ratio (the Company)

In thousands of RMB, except percentages

Item	June 30, 2017	December 31, 2016
Tier-one capital	84,749,883	67,706,445
Tier-one capital deductible items	1,712,111	268,702
Net tier-one capital	83,037,773	67,437,743
Adjusted asset balance inside the balance sheet	1,407,540,692	1,303,897,192
Asset balance of derivative products	7,492,863	8,478,014
Asset balance of securities financing transactions	35,442,699	45,087,285
Adjusted asset balance outside the balance sheet	255,546,239	239,875,655
Adjusted asset balance inside and outside the balance sheet	1,706,022,493	1,597,338,146
Leverage ratio	4.87%	4.22%

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

The Company adopts a “positive and solid” risk appetite, achieves optimization of risk returns by actively managing risks and innovating upon management approaches, and also endeavors to balance capital, risk and return, balance assets and liabilities, gradually improves the comprehensive risk management system which is in line with the Company’s full-asset operating strategy, thus promoting the realization of the overall goal of “Two Most” in a healthy and orderly manner.

The Board of Directors of the Company undertakes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervising, while the Senior Management is responsible for implementing the comprehensive risk management. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit review committee, investment and transaction review committee, asset risk classification review committee and business continuity management committee. The risk management and internal control committee is mainly responsible for the unified management of various risks and making research on risk management and internal control system, policies, measures and other major issues. The risk management department at our head office is the general department for comprehensive risk management and the leading executive department for credit risk, country risk and information technology risk management; the financial market risk control department at our head office is the leading executive department for market risk (excluding interest rate risk of banking book) management; the asset and liability management department at our head office is the leading executive department for interest rate risk of banking book, liquidity risk management; the internal control and compliance and legal department at our head office is the leading executive department for operational risk, compliance risk management and anti-money laundering management; the executive office at our head office is the leading executive department for reputational risk management; the development and planning department at our head office is the leading executive department for strategic risk management.

The Company accredits risk monitoring officer to those departments subject to higher degree of business complexity and relatively extensive risks at the head office. The risk monitoring officer assists the major persons-in-charge of the departments in organizing risk management, is independent of such departments and directly responsible to the president of the head office, conducts business evaluation and prepares risk report independently. The Company accredits risk monitoring officer to each branch. The risk monitoring officer assists the president of the branch in organizing comprehensive risk management, is independent of such branch and directly responsible to the head office, conducts business evaluation and prepares risk report independently.

The Company implements line risk management model which means to establish risk management centre or risk management position under competent authorities of business lines so as to improve the professional level and efficiency of risk management.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to the default of debtors or counterparties and or a decline in their credit quality. The Company's credit risk primarily lies in both on-and off-balance sheet businesses, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit and letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, branch and sub-branch presidents, branch and sub-branch relevant leaders (risk monitoring officer (supervisor)), credit review committee (team), investment and transaction review committee (team), risk management department, business department, marketing department and audit department. The Senior Management undertakes the responsibility for implementing the credit risk management, and is responsible for organizing the credit risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for credit risk management of the Company.

The Company formulates fundamental policies for our credit business based on the changes to our external operating environment and our internal operating and risk conditions. Such policies serve as the adjustments of policy guidance to be made to certain aspects of our credit business, such as customer structure, industry structure, regional structure, key business area and other aspects. In addition, the Company regularly adjusts our credit policies according to the development trends in the macro economy and our industry.

The Company classifies our credit assets by taking comprehensive consideration of the following factors in accordance with the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBRC, including the borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of the project being financed by the loans and the status of the guarantees. The Company's credit asset risks are initially classified by client managers, then examined by the head of the marketing department and reviewed by risk management personnel and finally determined by authorized individuals.

(1) **Credit risk management for corporate businesses**

The Company conducts unified credit extension management system on corporate customers, and determines the credit quota and credit scheme according to certain standards and procedures on the basis of comprehensive evaluation on creditworthiness and credit risk of those customers.

The Company strictly complies with relevant regulatory requirements of the CBRC and assigns loans (including trade finances), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses whose credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limit of single corporate customers, group customers and industry.

The Company continuously enhances the credit system construction, and has formulated the systems such as *Notice on Clarifying Transparent Management for Investment Business with Special Purpose Vehicles and Clarifying Relevant Issues about the Objects Subject to Examination and Approval*, *Administrative Measures for Unified Total Financial Amount of Corporate Group Customers of China Zheshang Bank*, etc., to reinforce comprehensive management and uniform control over the total financing amount of the corporate group clients.

The Company continuously enhances the management on the loan risks of local governments' financing platforms, strictly complies with the various lending policies and regulatory requirements of the CBRC on the financing platforms of local governments, makes dynamic adjustments to the targets of credit granting, and further optimizes the lending structure of financing platforms to prevent the credit risks that may arise from governments' financing platforms.

The Company continuously enhances the risk management on real estate loans. The Company engages in real estate credit business prudently, and adjusts our credit extension plans for the real estate industry in a timely manner; sets credit limits for the loans granting to the customers in the real estate industry and ensures that such limits are flexible and adjusted in a timely manner, as needed, and enhances our monitoring and management on the risks relating to existing loans.

The Company continuously enhances our risk management on the loans granted to the industries with excessive production capacity. The Company sets limits for the loans granting to the industries with "extremely excessive production capacity", strictly restrains the proportion of the balance of the loans granted to the industries with high pollution and energy consumption. The Company strictly controls the loans granted to the industries with seriously excessive production capacity such as the steel, coal, shipping and electrolytic aluminum smelting industries.

(2) Credit risk management for small enterprise business

The Company conducts unified credit extension management system on small-sized enterprise customers, and assigns all types of credit businesses of small-sized enterprise customers under our unified credit extension management. The Company actively explores a professionalized operating model, continuously improved our management system and further combs and standardizes the procedures and requirements for credit extension to gradually cultivate a unique and standard credit extension model of the Company.

The Company continuously enhances the management on the credit risks of small enterprise business. The Company strengthens our measures for risk mitigation, and strictly controls the overdue loan and non-performing loans by ways of classification, tracking overdue loans and on-site and off-site monitoring.

(3) Credit risk management for personal loans

The Company actively builds our credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company has also formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains the risk of loans with excessive credit as well as improves and optimizes governance mechanism of credit risk for personal loans. The Company has continuously enhanced the selection and management of guarantee, and improved our ability to mitigate credit risks. The Company has also implemented focused review and approval, enhanced standardization and normalization in personal loans and our subsequent management such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans, to ensure our asset quality at a satisfactory level.

(4) Credit risk management for credit card business

The Company has established a comprehensive credit card risk management system, which has put the comprehensive risk management throughout the entire lifecycle of credit cards, and substantially improved the full-process risk management capability. The company has established and continually optimized the risk measurement and assessment tools according to economic situation, regulatory policy and business situation, carried out anti-fraud investigation soundly, actively upgraded the intelligent examination and approval system, and strengthened the risk identification before loan; continued strengthening the on-going loan transaction monitoring, and controlled the risking customers effectively; positively expanded the post-loan debt collection channels and carried out vertical debt collection. The Company has established three risk management centers comprising a credit control center, a risk management center and an asset safety center, which coordinated to develop work in various process of access, examination and approval, credit extension, anti-fraud, monitoring, line adjustment, debt collection, etc., thus forming into a full-process and dynamic dead-loop risk management system.

(5) Credit risk management for inter-bank finance business

The Company's inter-bank finance business mainly comprises financial inter-bank business, money market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. The credit risk faced with us is mainly concentrated in money market business, bond investment business and financial inter-bank business.

The Company's money market business involving customer's credit risk must be included in our unified credit extension management system. When conducting money market business, we will draw up the customer's credit lines in accordance with the relevant policies for centralized management of customer's risk.

We manage the risks in our bond investment business through access criteria, credit limit control and credit extension risk assessment; the bond issuers are included in our unified credit extension management system. The credit risk of the invested bonds is tracked and monitored together by traders in the front office and employees in risk management departments. In addition, the risk management departments will also evaluate the credit risk of the invested bonds regularly.

The Company assigns financial institution customers under the customer scope of unified credit management, and formulated the *Administrative Measures for Unified Total Financial Amount of Domestic Financial Institution Clients of China Zheshang Bank*, which improved a series of systems and procedures for the investigation, examination and approval of unified credit extension of financial institution customers and carried out the risk classification and duration management of the financial inter-bank business.

3. Market risk management

Market risk refers to the risk from losses on- and off-balance sheet businesses across the bank due to unfavorable changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk can be divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk arising from adverse changes in interest rates, exchange rates, stock prices and commodity prices respectively. The term market risk in this section refers specifically to market risk other than interest rate risk in the banking book (details for interest rate risk in the banking book please refer to "7. Interest rate risk management of banking book" below).

The objectives of our market risk management are to maintain our market risk to be within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market risk control department, financial market department, other departments and branches and sub-branches. The Senior Management undertakes the responsibility for implementing the market risk management, and is responsible for organizing the market risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for market risk management of the Company.

The Company mainly takes the measures such as position setting management, limit management, hedging and reducing risk exposures to control market risk. The Company adopts the market risk measurement methods such as duration analysis, foreign exchange exposure analysis, scenario analysis and sensitivity analysis, and carries out market risk stress tests on a quarterly basis. The Company has established market risk management system pursuant to the relevant measures and guidelines of CBRC, formulated market risk management policies and procedures applicable to our business nature, scale, complexity and risk features, and maintained such policies and procedures in accordance with our overall business development strategy, management capabilities, capital strength and the overall level of risk acceptable to us.

During the reporting period, the Company has formulated market risk preferences and risk control index system, revised the primary institution for market risk management, and formulated separate regulations for significant contents like classification of the trading book and the banking book, market risk limits management, etc. on the basis of existing implementation rules for market risk management, which further improved the systems for market risk management. The Company has updated the market risk limits management plan, which upgraded and clarified the management requirements in terms of limit index, threshold value, monitoring frequency and scope of business coverage. The middle office management module in the fund trading system (SUMMIT) is used for measuring, monitoring and managing market risks. The Company evaluates the positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly measures the market risk for our trading book through stress testing and other methods.

4. Liquidity risk management

Liquidity risk refers to the risks of failure to obtain adequate funds in time at reasonable cost to repay debts when they are due, perform other payment obligations and meet other capital requirements in the ordinary course of business. The factors that influence the liquidity risk are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic policies, depth and breadth developments of financial markets and the competition outlook of the banking industry. The internal factors include the maturities of assets and liabilities, business structures, the stability of deposits, the ability to obtain financing in the market and various unexpected events.

The Company's objective in liquidity risk management is to establish a prompt, reasonable and effective liquidity risk management system, keep our efficiency while promoting continuous, healthy and stable development of our business on the basis of ensuring the safety of our capital operations.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, asset and liability management department, financial market department, risk management department, audit department, other departments and branches and sub-branches. The Senior Management undertakes the responsibility for implementing the liquidity risk management, and is responsible for organizing the liquidity risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for liquidity risk management of the Company.

The Company managed our liquidity risk in a centralized manner. By establishing a scientific and perfect liquidity risk management system, the Company can effectively identify, measure, monitor, control and report the liquidity risk. Specific liquidity risk management measures include: revising our basic system for liquidity risk management; paying close attention to both domestic and foreign macroeconomic situation and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing and maintaining the proportion of stable liabilities; promoting the diversification of financing channels and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the pre-warning monitoring and management on liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on regular basis, identifying the weak links in the Company's liquidity risk management according to the tests, adjusting liquidity risk management strategies or the size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As of the end of the reporting period, our liquidity coverage ratio was 143.10%, our high quality liquid assets amounted to RMB131.376 billion, the total net cash outflows over the next 30 days was RMB91.807 billion and the liquidity ratio was 50.99%.

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel or information technology systems, as well as external events. The types of operational risk loss incidents that the Company may expose to mainly include seven categories, such as internal fraud, external fraud, employment systems and accidents on safety of working places, incidents related to client, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, delivery and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, branch and sub-branch presidents, branch and sub-branch management teams, internal control & compliance management departments at all levels, risk management department, audit department, other management departments at all levels and business department. The Senior Management undertakes the responsibility for implementing the operational risk management, and is responsible for organizing the operational risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for operational risk management of the Company.

The objectives of operational risk management are to "control our operational risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank adjusted with respect to risks". The Company has established "three lines of defense" for operational risk management, among which, the business departments and other management departments comprise the first line of defense, the internal control & compliance management departments and risk management departments at all levels comprise the second line of defense and the audit departments comprise the third line of defense. The Company imposes whole-process management on operational risks, promotes such three lines of defense to play a role in parallel, and conducts risk control and management from different perspectives, with particular emphasis on the first line of defense to play the role of risk prevention and control.

During the reporting period, the Company managed our operational risk by following the principle of "full coverage, clearly defined responsibilities, honest report and quick response", reconsolidated its foundation work and improved its management mechanism so as to enhance the quality and efficiency of operational risk management. The Company revised the basic system for management of operational risks; took full advantage of the internal control non-compliance registration system and the off-site monitoring system to identify, evaluate and monitor operational risks; implemented special inspections as required by CBRC, such as "three types of violations", "three types of interest arbitrages", "four types of improper behaviors" and "remediation of the banking market chaos", to fully inspect and remediate any illegal and improper problems in operations and management; implemented upgrading and optimization of multiple information systems to further improve the system functions and intensify risk control; carried out the inspection on employees' abnormal behaviors and inappropriate positions, and conducted duty performance supervision on personnel in key positions to effectively prevent staff management risk; actively advanced the construction of the "3 in 1" integrated management project in respect of operational risk, internal control and compliance, sorted out the business management process, and enhanced the management level of operational risks. During the reporting period, the Company's operational risk management system operated smoothly and the overall operational risk was controllable.

6. Country risk

The country risk is the risk incurred to the Company arising from the inability or refusal by the borrower or debtor to repay the debt, losses suffered by the Company or its commercial presence in such country or region and other losses due to economic, political, social changes and events in a country or a region.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, corporate banking department, international business department, financial markets department, capital markets department, financial inter-bank department, asset management department, finance & accounting department, risk management department and branches and sub-branches. The Senior Management undertakes the responsibility for implementing the country risk management, and is responsible for organizing the country risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for country risk management of the Company.

During the reporting period, the Company has continuously advanced relevant work about country risk management pursuant to the relevant measures and guidelines of the CBRC, and revised the primary institution for country risk management; formulated the *Administrative Measures for Country Risk Limits of China Zheshang Bank and the Management Scheme for Country Risk Limits of China Zheshang Bank*, clarifying the organization structure and division of duties, limit framework, management mechanism, etc. for country risk limit management, and set up the country risk limit index and threshold value; carried out country risk evaluation and monitoring regularly, and withdrew the country risk reserve funds.

7. Interest rate risk management of banking book

Interest rate risk in the banking book is the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure etc.

The objectives of our interest rate risk management of banking book are to control our interest rate risk in the banking book within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, financial markets department, capital markets department, financial inter-bank department, asset management department, risk management department, asset and liability management department, audit department, other departments and branches and sub-branches. The Senior Management undertakes the responsibility for implementing the interest rate risk management of banking book, and is responsible for organizing the interest rate risk management of banking book throughout the Bank, as well as drafting, approving and implementing the fundamental systems and policies for interest rate risk management of banking book of the Company.

The Company mainly evaluates our interest rate risk through sensitivity analysis. Based on our judgment on the trend of the benchmark interest rate and the market interest rate, the Company actively adjusts the interest rate sensitivity gap between our assets and liabilities mainly by adjusting and controlling the loans price-resetting period and the duration of our bond investment business. In the meanwhile, the Company pays close attention to the trend of rates of local currencies and foreign currencies, keeps abreast of the changes in the market interest rates, conducts appropriate scenario analysis and adjusts the pricing methods for the interest rates of loans and deposits denominated in local currencies and foreign currencies in a timely manner to strive to prevent interest rate risk.

8. Reputational risk management

Reputational risk refers to the risk that a stakeholder will have a negative view on us as a result of our operations, management and other activities or external events.

Reputational risk management refers to a dynamic process of identifying, measuring or evaluating, monitoring, controlling and reporting the reputational risks by formulating and implementing a series of systems, methods and procedures, so as to realize the Company's operation objectives and build up a favorable social image.

Our objectives with respect to reputational risk management is to correctly respond to media news, public relationships and our relationships with our customers, actively and effectively prevent reputational risk and respond to reputational events, so as to reduce and mitigate the losses of and the negative impact of such events on the Company, stakeholders and the public in the society to the greatest extent. Reputational risk management has been included in corporate governance and comprehensive risk management system.

The Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, executive office, risk management department, information and technology department, other relevant departments at our head office, together with our branches and sub-branches, jointly constitute our organizational system with respect to reputational risk management of the Company. The Senior Management undertakes the responsibility for implementing the reputational risk management, and is responsible for organizing the reputational risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for reputational risk management of the Company.

During the reporting period, the Company improved our basic system for reputational risk management; strengthened the training plan and performed the implementation with respect to reputational risk management; enhanced our management capabilities at the source, raised staff performances levels and actively carried out trouble-shooting of potential accidents so as to prevent the occurrence of events that may have a negative impact on us; improved contingency plans, and specified the procedures and reporting mechanism for dealing with reputational risks; reinforced the building of press spokesmen team and intensified the guidance for social opinion to raise the ability to respond to crisis; stepped up positive publicity efforts to elevate the prestige of our brands.

9. Strategic risk management

Strategic risk means the risk incurred to the Company arising from the improper operational strategy or external business environment changes, including improper strategic design, inadequate strategic implementation or changes in internal and external environment, which would result in the existing strategy being inapplicable.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management department at our head office, development and planning department at our head office, audit department, other relevant departments at our head office and branches and sub-branches. The Senior Management undertakes the responsibility for implementing the strategic risk management, and is responsible for organizing the strategic risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for strategic risk management of the Company.

Based on the principle of "Clear responsibilities, Prospective prevention, Overall evaluation, Proper adjustment", the Company constantly perfects the strategic risk management system suitable to the scale and feature of business to maintain the robust and efficient operational strategy, and illustrates the strategic risk situation and management information by periodic reports to ensure the impact to be caused by factors such as macropolicies, industry risk etc. is in a controllable state.

During the reporting period, the Company has revised the primary institution for strategic risk management, and improved and perfected the strategic risk management system; continued to carry out the "Third Five-Year" Plan for strategic propaganda and implementation of strategic measures, and promoted orderly the strategic implementation; strengthened innovative advancement and initiative management, and intensified the strategic risk responsiveness ability; followed the industry's development trend, to elevate the strategic research analysis level and the prediction and evaluation ability on strategic risk; made annual plan for management institutions and advanced steadily the transformation and development of branches.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses or reputation losses that may result from the failure to comply with laws, regulations, rules and relevant industrial standards.

Our objectives with respect to compliance risk management are to establish a sound compliance risk management framework and promote development of a comprehensive risk management system which enables us to operate in a lawful and compliance manner.

The Company's compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, branch and sub-branch presidents, risk management department, compliance management department and audit department at all levels and other management departments and business departments at all levels. The Senior Management undertakes the responsibility for implementing the compliance risk management, and is responsible for organizing the compliance risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for compliance risk management of the Company.

The Company has established a much sound compliance risk management structure and a systematic compliance risk management system, and optimized three lines of defense for compliance risk management and dual reporting mechanism. We continuously modified, improved our compliance risk management mechanism and improved our risk management level to achieve effective control over compliance risks.

During the reporting period, the Company revised the primary institution for compliance risk management system; continuously deepened the compliance operation philosophy, and promoted compliance management efficiency effectively while exactly mastering the characteristic of the risk prevention and control under the new economic normal and sticking to the risk bottom line; consolidated the indicating work of compliance risk by focusing on the market heats and key areas of business; actively implemented the supervisory requirements and organized the implementation of special governance activities such as "three types of violations", so as to effectively prevented operational risks and enhance the quality and efficiency for serving the real economy; deeply carried out the special actions of "safeguarding by internal control and escorting by compliance", continuously improved the compliance culture and the long-term internal control and compliance management mechanism in line with the Company's business development features, and created an internal control and compliance environment facilitating the sustainable development of the Company's business; vigorously promoted the construction of system standardization, revised the regulations, systems and administrative measures, optimized the basic systems, improved the system management framework, and enhanced the comprehensiveness and effectiveness of the system; optimized the classified and layered compliance education and training system; advanced the construction of "3 in 1" integrated management project in respect of operation risk, internal control and compliance; persistently improved the management and control ability for legal compliance, prevented against key legal risks, and made greater legal supportive efforts for daily operational activities to ensure the healthy and stable business development of the Company.

11. Information technology risk management

Information technology risks refer to the operational, legal and reputational risks incurred from natural factors, human factors, technical defects and management flaws while the information technology is applied in the Company.

The objectives of the information technology risk management are to control the information technology risk within a reasonable bearable range, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's Information technology risk management organization system consists of the Board of Directors, the Board of Supervisors, the Senior Management, risk management and internal control committee, risk management department, information technology department, as well as other management departments and business departments at all levels. The Senior Management undertakes the responsibility for implementing the information technology risk management, and is responsible for organizing the information technology risk management throughout the Bank, including formulating and implementing the fundamental systems and policies for Information technology risk management of the Company.

The Company has established a much perfect information technology risk management system and process system, and comprehensively formulated the processes and implementation rules of relevant systems in compliance with the ISO27001 management system and supervisory requirements; established the business continuity management system, information technology outsourcing risk management system, and set up a well-established information safety management system and a much standardized information technology risk monitoring and evaluation mechanism.

During the reporting period, the Company revised the primary institutions for information technology risk management; actively implemented the *Information Technology Development Planning for China Zheshang Bank (2016-2020)* (π Plan), and promoted the construction of "three centers in two different cities"; promoted information safety ecosystem engineering, and took control over the Internet application safety; strengthened the monitoring, evaluation, safety detection and emergency drilling of important information systems, deployed the annual emergency drilling plan, carried out emergency drilling and improved the emergency plan. During the reporting period, the systems ran stably with no substantial information technology risk events occurred.

12. Anti-Money Laundering Management

Anti-money laundering management means a series of preventive measures and risk control actions taken in order to prevent the money laundering activities that dissimulate and conceal the illegally obtained proceeds and the source and nature of income.

The objective of the Company's anti-money laundering management is to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting the internal control system suitable to the anti-money laundering requirements and our development strategy to effectively guard against and control the money laundering risk.

In accordance with the Company's corporate governance structure, the Company has established and optimized the anti-money laundering organization structure and working mechanism under which the Board of Directors, the Board of Supervisors, the Senior Management and the related departments conduct layered management, assume their respective duties, and cooperate in their working.

During the reporting period, the Company carefully performed its social liability and legal obligations on anti-money laundering, and pushed forward firmly various anti-money laundering work on the principle of "Law compliance, risk-oriented regulatory, total involvement, profession & efficiency, keeping confidential", including: improving the huge amount transaction and suspicious transaction reporting system, accelerating the upgrade and transformation of anti-money laundering business system, optimizing the anti-money laundering monitoring model and rules, and striving in implementing the new anti-money laundering system; carrying out the financial sanction risk inspections against specific countries for many times according to supervisory requirements and in combination of our actual situations, taking measures like restricting transactions or clearing accounts for any high-risk accounts and customers found during such inspection, thus preventing and controlling the anti-money laundering and financial sanction risks effectively; actively promoting the publicity and education on anti-money laundering, thus strengthening the anti-money laundering awareness and duty performance ability throughout the Bank.

(VII) BUSINESS SUMMARY

1. Corporate business segment

(1) Corporate business

In terms of corporate business, the Company has focused on developing itself into a bank that provides corporate liquidity services, strived to promote the innovation upon product and financial services model as well as business transformation and development, actively served the key national strategies and real economy, and achieved multi-win of the society, enterprise and bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, the Company's corporate business has maintained steady and rapid development trend. As of the end of the reporting period, the Company had 60,923 corporate customers; balance of corporate loans was RMB411.606 billion, representing an increase of RMB58.406 billion or 16.54% as compared to that at the beginning of the year.

The Company made positive response to the changing situation, grasped the opportunity in the economy changing to "new normal", implemented the strategy of Chinese government to support the development of emerging industries and promote the transformation and upgrade of industrial structure, advanced business transformation and development. The Company has established professional operation management and credit assessment teams with respect to the five emerging industries, namely information industry, new energy industry, health industry, cultural industry and modern logistics industry. During the reporting period, the Company continuously explored into the service models in emerging industries and intelligent manufacturing sectors, and sought after business opportunities. As at the end of the reporting period, the Company's financing balance in the five emerging industries exceeded RMB133.440 billion, while the financing balance in intelligent manufacturing amounted to nearly RMB21.769 billion.

(2) **International business**

During the reporting period, the Company's international business achieved a rapid growth in business scale by accelerating product innovation and improving service means. We've completed the international settlement of US\$30.119 billion, representing an increase of 37.49% on a period-on-period basis; the income of intermediary business amounted to RMB242 million, representing an increase of 25.87% on a period-on-period basis. According to statistics from January to June by the State Administration of Foreign Exchange, the Company's foreign exchange receipts and payments amounted to US\$21.478 billion, representing an increase of 37.45% on a period-on-period basis, with the period-on-period growth rate ranking the first among the nationwide joint-stock commercial banks.

Strengthen the development of "light assets" financing business. By taking full advantage of low risk and low capital occupancy features of trade financing, the Company focused on promoting the low capital consumption business such as import letter of credit, forfaiting, export credit insurance financing, etc. It is noteworthy to mention the business model of "Yongjin Export Pool + credit insurance financing", which has realized zero capital consumption while enlarging the basic customer base. As of the end of the reporting period, the balance of trade finance amounted to US\$11.849 billion (local and foreign currency converted to USD).

Develop vigorously the commissioned foreign exchange trading business. In line with the market situation, the Company accelerated product innovation, launched the commissioned foreign exchange trading products of "Trading + Settlement" mix, "Trading + Financing" mix, "Trading + Deposit" mix and "Trading + Issuance of Bonds" mix, helped enterprises lower financing costs and evade risks from foreign exchange market fluctuation. During the reporting period, our commissioned foreign exchange trading volume on behalf of customers amounted to US\$11.429 billion, representing a year-on-year growth of 12.65%, of which spot transaction amounted to US\$6.243 billion and derivative transaction amounted to US\$5.186 billion.

Accelerate to promote the Internet Plus operation of international business. The Company has actively adopted the operating concept of "Internet Plus", vigorously promoted the online service functions for international business, realized the full coverage for all fundamental corporate and personal international business types by the online banking, and launched an Internet-based foreign exchange trading platform – "CZB Trading Pal".

(3) Pooled financing platform

The Company paid close attention to the two core needs of enterprises as “reducing financing costs and improving service efficiency”, brought forth new ideas in the “pooled” and “online” financing business model, introduced the online supply chain finance “1+N” solution and “Zhizhen Loan” based on the “three pools” (namely, Yongjin Bill Pool, Yongjin Asset Pool and Yongjin Export Pool), formed into a complete set of comprehensive corporate liquidity financial service solutions, assisted enterprises to stimulate current assets such as corporate bills receivables, accounts receivables, etc., realized online operation, self-service financing, withdrawal on demand and loan revolving and thus reduced corporate capital reserves, total loans and interest expenditure, lowered corporate financing leverage and financing costs. As at the end of the reporting period, the Company had 12,152 customers of Asset Pool (Bill Pool) who signed contracts with respect to these products, representing an increase of 28.57% as compared to that at the beginning of the year, while the pooled financing balance was RMB190.594 billion, representing an increase of 13.05% as compared to that at the beginning of the year; the contracted customers of Export Pool reached 1,535, representing an increase of 19.73% as compared to that at the beginning of the year, with the balance of pooled accounts receivables being US\$1.087 billion, representing an increase of 15.64% as compared to that at the beginning of the year, and the financing balance of accounts receivables being US\$464 million, representing an increase of 0.50% as compared to that at the beginning of the year; 995 customers have signed contracts with respect to Zhizhen Loan, representing an increase of 183.48% as compared to that at the beginning of the year, with the financing balance reaching RMB29.685 billion, representing an increase of 171.37% as compared to that at the beginning of the year.

2. Inter-bank financial segment

(1) Business overview

The Company’s inter-bank financial segment has actively implemented the requirements of “building up the most characteristic and competitive medium-sized bank” and the full-asset operating strategy, focused on maximizing the customer values and enhancing the quality and efficiency in serving the real economy according to the “cross-market, professional and one-stop customer service” concept, initiatively adapted to the market and policy changes, continuously innovated and upgraded the product and business models close to the demands of customers at various levels, continually promoted structural optimization and risk control, thus further enhanced the characteristic competitiveness and market influence. During the reporting period, the financial market business, capital market business, inter-bank financial business, asset management business, investment banking business and asset custodian business within the inter-bank financial segment achieved sustainable and healthy development and showed various great highlights.

(2) **Financial market business**

The Company made positive efforts to establish a comprehensive FICC (Fixed Income, Currency & Commodity) trading platform integrating proprietary investing and financing, proprietary trading and trading on behalf of customers, and continuously strengthened business innovation and customer service capabilities of cross-board, cross-market and cross-assets types, and promoted business development in collaboration with corporate, retailer, inter-bank lines and branches. During the reporting period, the Company acquired the “Qualification As a Trial CNY Forward-swap Market Maker” at the inter-bank market and the “Excellent Membership for Banking Customers at Emerging Markets” of Chicago Mercantile Exchange.

During the reporting period, considering the continuous increase in yield rate of the local currency bond market, the Company adopted the defensive strategy to take strict control over the bond position and duration, and evade the market risks effectively. At the meantime, the Company continued to advance the underwriting and distribution business of interest rate bonds and debenture bonds, with the trading volume increased tremendously. During the reporting period, the Company was honored as the “Active Trader” at the monetary market, bond market and derivatives market in the first half of 2017, attributable to our trading activities at the inter-bank markets.

In terms of foreign exchange trading, the Company intensified analysis of the foreign exchange market, and achieved the diversification of trading strategy and refined management trading portfolio. During the reporting period, the foreign exchange proprietary trading volume amounted to US\$200.721 billion, representing a year-on-year growth of 86.65%; the commissioned foreign exchange derivatives trading volume on behalf of customers amounted to US\$5.186 billion, representing a year-on-year growth of 63.05%; the Company continued to maintaining the top market ranking. Meanwhile, the Company accelerated to develop the offshore trading business, further expanded the trading channels of global financial market, grasped the trading opportunity of yield curve, and reasonably managed the investment portfolio risks by taking advantage of the interest rate derivatives. During the reporting period, the trading volume of offshore interest rate swaps was US\$3.103 billion, while the trading volume of offshore interest rate options was US\$7.792 billion.

In terms of precious metal trading, the Company effectively mastered the trends of precious metal market and grasped the opportunity in price difference at home and abroad, to carry out trading of precious metals, particularly silver. During the reporting period, the Company's proprietary silver trading volume jumped to the sixth place at Shanghai Gold Exchange and the third place at the inter-bank market; the proprietary gold trading volume ranked the 15th at Shanghai Gold Exchange. During the reporting period, the physical gold product – “Zengjin • Wealth Gold” was launched, with the sales volume in excess of RMB10 million.

(3) Capital market business

The Company actively explored into the coordinated development of commercial banks and multi-level capital markets, and actively developed the capital market business pursuant to the requirement of “efficient, innovative, sound and compliant”. The Company conducted deep research on the development trends and policy changes of the capital market, upgraded and optimized products and services, enhanced the quality and comprehensive benefits of assets, and provided full-value services for clients, thus achieved the sound and sustainable development of the capital market business.

During the reporting period, the Company insisted on serving real economy, actively implemented the national strategy of supply-side structural reform, reinforced the resource allocation and value-orientation functions of the capital market business, increased investing and financing support for the strategic emerging industries, and cultivated new economic impetus. The fundamental client bases of various leading enterprises, new economy entities and local government industry funds were expanded continuously, the customer coverage and satisfaction were further enhanced, the platform and network effect was gradually showcased, and rising reputation and influence were gained at the market.

(4) Inter-bank financial business

The Company positively accommodated to the market and policy changes, continued to strengthen product innovation and risk control, controlled the development rhythm reasonably, promoted the inter-bank assets structure, and thus achieved downsizing and efficient development.

During the reporting period, the trading volume of bill transfer discounts reached RMB4,513.0 billion, representing a year-on-year growth of 53.93%, with the trading volume of transfer discounts ranking the second among the national traders. Hence, the Company’s role as a leading trader has been further reinforced, and our brand image at the bill market has been intensified continually.

The Company continued to construct the trading cooperation platform, provided customers with financial products design services, and improved the product trading capability. The Company also expanded cooperation with non-banking institutions and quasi financial institutions, promoted the online and offline interactions of the trading platform, achieved the platform-based product sales and trade matchmaking, thus pushed the efficient and orderly circulation of inter-bank assets.

The Company actively expanded all kinds of financial inter-bank customer channels, and strengthened the inter-bank information sharing. On the basis of hierarchical marketing for inter-bank customers, the Company promoted profound cooperation with all kinds of financial institutions. During the reporting period, the two-way credit extending limit between the Company and main commercial banks grew sharply, which has powerfully supported the business development in various lines.

(5) *Asset management business*

The Company's asset management business is centered on serving our customers professionally, and aims to build a professional platform that is equipped with cross-market and multi-tool applications, enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfill customers' investment and financing needs. The Company positively accommodated to the market and policy changes, attached importance to advancing the optimization of asset structure and customer structure, made full efforts to satisfy various investment and financing demands of individuals, companies and inter-bank customers, and strived to build a respected asset management business brand featured by "professional management, customer first, differentiated competition and leading efficiency".

As of the end of the reporting period, the balance of our wealth management products amounted to RMB408.884 billion, representing a decrease of 4.73% as compared to that at the beginning of the year, wherein, the proportion of funds for the individuals, companies and inter-bank customers respectively represented an increase of 9.47 percentage points, a decrease of 6.77 percentage points and a decrease of 2.70 percentage points as compared to that at the beginning of the year. During the reporting period, the Company issued wealth management products of a total of RMB251.301 billion, representing an increase of 43.42% on a year-on-year basis, and realized investment income of a total of RMB5.919 billion for our customers, representing an increase of 55.27% on a year-on-year basis. During the reporting period, the Company put aggressive efforts in building our asset management brand, and won the professional awards of the "2016 Golden Bull Bank Wealth Management Award" by China Securities Journal and the "2017 Junding Award for Bank Wealth Management Brand in China" by the Securities Times.

(6) *Investment banking business*

Through the customer-based investment banking business, the Company innovatively adopted the investment banking product system to provide customers with bond underwriting services, built up the direct financing service bank, and continued to expand market competitiveness and influence.

During the reporting period, the Company continued to innovate and improve the investment banking products and business models catering for market demands, successfully made use of various matured products and innovative products available on the inter-bank markets, strengthened the construction of investors team, focused on providing customers with direct financial services via the investment banking business, and continued to serve the real economy. During the reporting period, through multiple underwriting ways like exclusive lead underwriter, co-lead underwriter and financial adviser, the Company underwrote various types of bonds, such as local government bonds, financial bonds, corporate bonds and asset-backed securities, amounting to RMB53.744 billion.

During the reporting period, the Company's investment banking business was awarded the "2017 Junding Award of Investment Banking (Industry) in China District" and the "2017 Junding Award of Bond Underwriting Bank in China District" by the Securities Times, as well as "Top Ten Annual Best Enterprises for Assets Securitization" and "Annual Emerging Award for Credit Assets" of the Annual Award of the Third China Assets Securitization Forum.

(7) Asset custodian business

The Company grasped the business development opportunities of “broad asset management”, integrated the resources effectively by adhering to the “one-stop” financial service philosophy, actively develop new business areas, continuously optimized the business structure, and improved the market competitiveness and influence steadily.

Based on the relatively matured custody business qualifications, the Company vigorously expanded the custody business by bringing into full play the strengths of mainstream custodian products covering public offering fund, fund house client asset management product, securities house client asset management products, bank wealth management products and trust plans. During the reporting period, the Company successfully launched the custody business WeChat service platform, to further meet the customer's inquiry needs for custodian product accounts, turnover and command state, and optimize the electronic custody service process. As at the end of the reporting period, the balance of assets under custody reached RMB1.63 trillion, representing an increase of 14.79% as compared to that at the beginning of the year; the accumulated income from custodian fees amounted to RMB219 million, representing an increase of 207.17% on a year-on-year basis.

3. Large retail segment: small enterprise business

During the reporting period, the Company targeted at serving the real economy and building a bank providing customized services for small and micro enterprises, continued increasing the input of credit resources, and continuously explored into the potential financial needs of customers, making the small and micro business maintain rapid and sound development momentum. As at the end of the reporting period, the balance of national-standard small and micro enterprise loans of the Company was RMB163.579 billion, representing an increase of RMB19.949 billion or 13.89% as compared to that at the beginning of the year. The small and micro enterprise loans accounted for over 30% of total loans and advances to customers, which completed 60% of the annual incremental assessment targets for small and micro enterprise loans of the CBRC, exceeded the time sequence progress, with the loan application approval rate and number of customers up to the standard, and accomplished the index requirements for small and micro enterprise loans in MPA assessment policy of the PBOC; during the reporting period, the number of new customers of small and micro business reached 11.1 thousand, with the accumulated number of customers up to 147.5 thousand. Meanwhile, the asset quality of small and micro business assets maintained at a good level. As of the end of the reporting period, the non-performing ratio was 1.30%, representing a slight increase of 0.01% as compared to that at the beginning of the year; the overdue rate was 1.62%, representing a decrease of 0.23% as compared to that at the beginning of the year. Small and micro business showed high returns, with the interest rate 0.26 percentage points higher than other loans as compared to that at the beginning of the year.

The Company aimed at the emerging industry and cultivated new economic impetus. The Company continued to innovating products and reinforcing the support of small and micro enterprises in new industries and new business modes; we reinforced our effort to explore into the construction of “Talent Bank” that provides specialized financial service models for talents of the “Thousand Talents Program” of the national and provincial level, and strengthened the publicity of the products of “Innovation and Entrepreneurship Program”. As of the end of the reporting period, the loan balances and the number of customers for the “Innovation and Entrepreneurship Program” reached RMB20.885 billion and 14,865, increasing respectively by RMB5.149 billion and 1,846 as compared to that at the beginning of this year.

The Company explored into the application of financial technology and practiced the inclusive finance. During the reporting period, the Company continued promoting the “Easy Loan”, explored into the new models of small and micro credit loans featured by centralized management, online promotion and leveraged marketing by virtue of the innovative products, and solved the business sustainability of inclusive finance by digital technology. The “Easy Loan” business has presented two products dedicated to small-sized e-commerce and supermarket customers, and will launch the new products for more small and micro business customers. As of the end of the reporting period, there were 1,692 customers of “Easy Loan”, with the accumulated credit extension amounting to RMB187 million.

The Company reinforced the comprehensive service capability to meet the diversified financial needs of small and micro business customers. The cross-segment products such as pooled financing and “Easy Export” have been used positively to further popularize the non-credit products like “Accounts Universal”, thus further exploring into the growth conveying channels for small and micro business customers, and vigorously promoted the construction of the customer’s leading bank system. As of the end of the reporting period, the number of cross-selling products for small and micro business customers was 4.43, increasing by almost 0.4 as compared with that at the beginning of the year; the leading bank customers with credit extension accounted for over 60% of the small and micro enterprises, increasing by 7.23 percentage points as compared with that at the beginning of the year.

4. Large retail segment: personal business

In terms of personal business, the Company continued to optimize and improve the business, product and service system by adhering to the development direction of building ourselves into “a bank for personal wealth management” and by continuously strengthening the “Internet Plus” innovation, substantively advanced the construction of personal customer base, and maintained a rapid growth momentum in business operations.

As at the end of the reporting period, the Company's personal financial assets totaled to RMB214.762 billion, representing an increase of 45.91% as compared with that at the beginning of the year; the number of individual effective customers reached 2,827.0 thousand, representing an increase of 34.25% as compared with that at the beginning of the year.

(1) Personal deposit and loan business

The Company continued to innovate upon liability products, launched “Zenglijia” products for self-employed business owners and small & micro enterprises with larger capital settlement, and actively expanded settlement deposits; meanwhile, positively developed characteristic deposit products like large deposits, “Youlijia” and “Huolijia”, actively promoted personal large deposits, and drove the rapid growth of personal deposits; continuously focused on personal housing loan and consumption loan business, actively implemented the new national policy for personal housing loan, innovatively launched new businesses like “Fapai Loan” and “Weilian Loan”, and accelerated in promoting the construction of core risk control system and centralized review & approval process for personal loans. As at the end of the reporting period, balance of the personal deposits was RMB53.530 billion, representing an increase of 59.56% as compared with that at the beginning of the year; balance of personal housing loans and consumption loans was RMB24.983 billion, representing an increase of 92.57% as compared with that at the beginning of the year, with the good asset quality maintained continuously.

(2) Wealth management

The Company is committed to providing integrated financial services for personal customers, gradually improving its wealth management product system, and actively promoting the comprehensive liquidity service solutions focusing on “Finance Market” and “Zengjin Wealth Pool”, and getting through the liabilities end and assets end, which have solved the pain points in customer experience of traditional finance, and achieved the synchronously rapid growth of both wealth customers and financial assets. During the reporting period, the accumulated sales amount of personal financing products reached RMB180.842 billion, representing an increase of 181.96% on a year-on-year basis; as at the end of the reporting period, balance of Zengjinbao was RMB21.533 billion, increased by 76.10% as compared to that of the beginning of the year; and the number of personal wealth management customers reached 318.7 thousand, increasing by 41.59% as compared to the end of 2016. “Zengjin Wealth Pool” was awarded as the “Top Ten Innovative Financial Products Award” by The Banker.

(3) Private banking

The Company accelerated the construction of private banking business system, reinforced the innovation and design of products, presented the quasi family trust business, and launched the first staging net value products, thus enriching the product system. The Company continued to carry out the “Z20” high-end series private banking activities, and elaborately selected service contents such as VIP services in airports and high-speed railways, overseas education and health care, etc. As of the end of the reporting period, the Company had 3,143 private banking customers, representing an increase of 67.71% as compared with that at the beginning of the year.

(4) **Credit card business**

Being customer-centered, the Company continuously innovated upon the credit card products, functions, channels and services by considering the customer needs and concerns, continuously launched a series of co-branded cards in cooperation with numerous enterprises and public institutions, positively conducted the installment business of parking lot and home decoration, and established a product service system covering all the online/offline application scenarios; carried out a series of promotion activities with the theme of "Let's Go Eating Delicious Food", "Let's Go Watching Movie", "Let's Go Travelling", etc.; continuously increased the benefits of car wash, refueling, easy tax refund overseas, etc. in car card, ETC card and other products; continued to establish the payment system consisting of credit card APP, WeChat, UnionPay quick pass, QR code payment, mobile banking, etc., which comprehensively improved the card use experience of customers. As at the end of the reporting period, the Company has totally issued 1,617.8 thousand credit cards, with 514.7 thousand cards newly issued during the reporting period; the cumulative consumption amount was RMB9.691 billion and the overdraft balance was RMB3.359 billion, with the defect credit rate being 1.01%.

5. **Internet Finance and Electronic Banking**

(1) **Internet Finance**

In early 2017, in terms of Internet finance business, the Company explored the accumulated values in traditional supply chains by the Internet finance approaches according to the overall concept of "being a new financial operator", put efforts to implementing the "triple-facet" development plan, and emphasized on realizing three transformations: transforming the innovation focus from single product innovation to scenario-based innovation; transforming the business type mainly from payment settlement to asset business; and transforming target customers from those within the Internet ecosystem to traditional enterprises having the demand of Internet finance transformation. During the reporting period, satisfactory results have been achieved in multiple fields of the Internet finance business:

Firstly, the innovation scenarios have fully flourished. During the reporting period, the Company has, according to the specific application scenarios of customers, innovatively launched the township finance business based on the financial standardization needs of township governments, the logistics finance business based on the funds settlement needs of the logistics industry, the intelligent factoring business based on the funds management needs of the factoring industry, the bidding finance business based on the efficient management needs of the bid bonds, the e-commerce finance business based on the fund supervision needs of the e-commerce platforms, and the cash management business upgrade based on the unified management needs of the group funds, which have been highly favored by customers.

Secondly, the asset business has made gradual breakthroughs. During the reporting period, the Company completed the overall design of consumption finance and IoT (Internet of Things) finance platform, and preliminarily built up a batch of new scenarios for the Internet finance and asset business.

Thirdly, the business service was more close to the real economy. During the reporting period, the scope of the target customers of our Internet finance business broadened continuously among the real enterprises, and achieved the breakthroughs in government customers, hospitals, business enterprises subject to nationwide distribution model, special agricultural cooperatives, bidding agencies and enterprise, traditional trust and factoring institutions, etc.

(2) Electronic banking

The Company has comprehensively formed an electronic banking services system consisting of online banking, direct banking, telephone banking, mobile banking, WeChat banking and self-service banking system. The replacement rate of electronic banking channels reached 97.04%, which is a leading level in the industry.

Online banking

During the reporting period, the Company continued to upgrade personal e-banking, added or optimized such function as personal wealth market, personal wealth pool, wealth capital, trust plan, fund supermarket, personal loan, personal foreign exchange settlement, living payment, category II/III account opening (management). In addition, the Company optimized the personal e-banking counter registration and the first login process and the financial market (investment and financial management) pages, and significantly improved customer experience and interactive friendliness. As of the end of the reporting period, the number of the Company's personal e-banking customers reached 571.4 thousand, representing an increase of 43.95% as compared to that at the beginning of the year. The number of corporate e-banking users reached 74.4 thousand, representing an increase of 17.54% as compared to that at the beginning of the year. During the reporting period, 12,004.9 thousand transactions were completed through corporate e-banking, and the transaction amount totaled RMB2,840.249 billion.

Direct banking

During the reporting period, the Company issued a brand new direct selling mobile banking brand "Zhe + Bank", added such functions as Anxinying 2, Salary Management and Anti-fraud Control, improved the customer experience, highlighted the scenario-based application, actively expanded the personal margin business, enhanced the ability of integrated financial services, and positively responded to the requirements of the People's Bank of China on personal account classification management. As of the end of the reporting period, the number of customers in direct selling mobile banking reached 980 thousand.

Telephone banking (95527)

By upholding the service motto of “beyond expectation by customer-centered and considerate services”, the Company broke through the traditional mindset of customer service to build a multi-channel operating platform assembling telephone, Internet, text messaging, WeChat, fax, e-mail, etc., and provide customers with the 7×24 hours integrated services covering the whole pre-sale, in-sale and after-sale process. The service content involves all of our finance businesses, with service forms including self-help voice service, human telephone service, human online service, WeChat, e-mail, etc. More customers could be reached by taking advantage of service contacts and natural interaction, while their needs could be deeply recognized through cross-marketing or secondary marketing, which effectively enhanced integrated customer service capability.

During the reporting period, the Company received 1,763.9 thousand customer calls, of which 1,066.9 thousand calls were transferred to our customer service representatives, with the customer satisfaction rate up to 99.33%. The settlement rate of customer complaints reached 100%.

Mobile banking

During the reporting period, the Company continued to optimize the mobile banking services, launched UnionPay QR code-based payment products “LimaPay”, “Huawei PAY” and “MI PAY”, extended the payment application scenarios, also supported fingerprint and gesture login, and explored personal face recognition technology to ensure the customer experience while enhancing the risk control capabilities. As of the end of the reporting period, the number of personal mobile banking customers reached 737.8 thousand, representing an increase of 67.07% as compared to the beginning of the year.

WeChat banking

During the reporting period, the Company was continually committed to establishing WeChat banking to be an important platform for new types of financial services and brand promotion. As at the end of the reporting period, the Company had approximately 1,450 thousand customers in WeChat banking, while the amount of information being read in WeChat banking exceed 4 million times.

Self-service banking

During the reporting period, the Company continued to establish the self-service banking channels to provide customers with 7×24 hours self-service banking such as automated teller machines and cash recycling systems, so as to fully meet the customer needs of deposits, withdrawals, transfers, balance inquiries, password modification and other financial services.

(VIII) INFORMATION ABOUT MAJOR SUBSIDIARIES

As a holding subsidiary of the Bank, Zheyin Financial Leasing obtained its business license on 18 January, 2017, with a registered capital of RMB3 billion. Its business scope covers the leasing business, transfer and acquisition of financial leasing assets, investing in fixed-income securities, accepting lease deposits from lessees, accepting fixed deposits of three months or longer from non-bank shareholders, inter-bank borrowing, taking loans from financial institutions, overseas borrowings in foreign currencies, sale-and-disposal of the leased properties, economic consultation, and other businesses approved by CBRC.

As of the end of the reporting period, the total assets of Zheyin Financial Leasing have reached RMB5.573 billion.

(IX) OUTLOOK

In the second half of 2017, the Company will, under the guidance of the overall goal of “Two Most”, continue to promote the implementation of our full-asset operating strategy, profoundly apprehend the spirit of National Financial Work Conference, and practically enhanced our ability and level to serve the real economy. We will implement the “Third-Five-Year” plan, continue innovating to follow up the economic and social development trends, continue intensifying compliance to adapt to the regulatory reform, continue improving direct finance service to keep pace with the evolution of financial market pattern, continue emphasizing on financial technology to adapt to the profound influence of technological revolution, continue optimizing the risk management system to satisfy the deleveraging requirements, and continue consolidating the balance sheet to accommodate to the tight balance state of operating resources. The Company will continuously deepen transformation and development by focusing on the main business, aiming at the long-run development and making overall arrangements in advance, thus delivering even better results.

(I) OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, the Company adhered to legal compliance, perfected corporate governance system, referred to the best practice of well-performed enterprises, gave full play to the decision-making role of the Board of Directors, enhanced the supervisory role of the Board of Supervisors, and strived to build a corporate governance mechanism characterized by clear responsibility division, orderly coordination, democratic decision-making and efficient operation. The governance bodies of the Company, including the general meeting, the Board of Directors, the Board of Supervisors and the Senior Management, operated independently, cooperated with each other and effectively check and balance one another to ensure coordinated operation of the Company.

During the reporting period, the Company held a total of 23 meetings, including 1 shareholders' general meeting, 2 shareholders' class meetings, 3 meetings of the Board of Directors, 9 meetings of special committees under Board of Directors, 5 meetings of the Board of Supervisors and 3 meetings of special committees under the Board of Supervisors. Material resolutions, such as the Company's annual report, working reports of the Board of Directors and the Board of Supervisors, working report of the president, financial account report, financial budget report, profit distribution scheme, report of related party transactions and plans on issuance and listing of A shares were reviewed and approved at these meetings.

During the reporting period, the Company, in accordance with the domestic and overseas regulatory requirements, amended various policies and measures including Articles of Association, the Rules of Procedure for Shareholders' General Meeting of China Zheshang Bank Co., Ltd. (《浙商银行股份有限公司股東大會議事規則》) and the Rules of Procedure for the Board of Directors of China Zheshang Bank Co., Ltd. (《浙商银行股份有限公司董事會議事規則》), which further improved the corporate governance system of the Company.

(II) SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company held the 2016 Annual General Meeting, the 2017 First Class Meeting for Domestic Shareholders and the 2017 First Class Meeting for H Shareholders on May 31, 2017. For details of relevant proposals and relevant announcements about resolutions adopted at the meetings, please refer to the circular for the general meetings dated April 13, 2017 and poll results announcement in connection with the general meetings dated May 31, 2017 published by the Company on the websites of Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The Chairman of the meetings has explained the detailed procedure for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

(III) MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, 3 meetings of the Board of Directors were convened, on which 65 resolutions were considered and approved and 3 special reports were debriefed, and 1 independent communication meeting between the Chairman, non-executive Directors and independent non-executive Directors was held.

During the reporting period, a total of 9 meetings of the special committees under the Board of Directors were convened, including 1 meeting of the Strategic Committee, 1 meeting of the Audit Committee, 4 meetings of the Risk and Related Party Transaction Control Committee, 2 meetings of the Nomination and Remuneration Committee, and 1 meeting of the Consumer Rights Protection Committee. 56 resolutions were considered and approved, while 6 special reports were debriefed.

(IV) MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Company held 5 meetings of the Board of Supervisors and 1 special meeting of the Board of Supervisors to review 11 resolutions. A total of 3 meetings of the special committees under the Board of Supervisors were convened, including 1 meeting of the Supervision Committee under the Board of Supervisors for review of 2 resolutions and 2 meetings of the Nomination Committee for review of 5 resolutions.

(V) THE POLICY FOR THE DIVERSIFIED COMPOSITION OF THE BOARD OF DIRECTORS

In order to achieve diversification of the Board, the Company has formulated the Diversification Policy for the Board of Directors of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, culture and educational background, professional experience, skills, knowledge and/or service period. The Company will also consider its own business model and other specific needs, as well as the balance between executive and non-executive Directors from time to time.

After carefully reviewing the diversification of the Board of Directors and the independence of the independent non-executive Directors, the Board of Directors considers that its diversification construction is in compliance with relevant provisions of Hong Kong Listing Rules and other laws and regulations, and meets the Company's requirements for fulfilling the strategic objectives and sustainable development, and all the independent non-executive Directors meet the independence requirement to undertake their positions.

(VI) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place where the Company is listed. On the basis of comprehensively implementing various regulatory rules, the Company continuously sort out and perfect the implementation details of information disclosure management matter from the aspect of system construction and work procedure.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and procedures of the Hong Kong Listing Rules.

During the reporting period, the Company truly, accurately and completely disclosed various information in a timely manner, and a total of 30 various announcements were released, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of the Company's governance.

(VII) INVESTOR RELATIONS MANAGEMENT

The Company consistently makes good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition on the Company.

During the reporting period, taking the release of 2016 annual results and the listing of Offshore Preference Shares as an opportunity, the Company strengthened market communication and introduction at domestic and overseas markets. In addition, the Company's management held the press conference for business results and conducted several rounds of road shows in Hong Kong. They made in-depth exchange with the investors and the analysts, timely answered the questions that investors concerned, and effectively expanded the coverage of the investors.

The Company formulated the administrative measures for investor relations in accordance with the regulatory requirements of the listing place and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled the events in connection with investor relations, timely answered and feedback the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhance the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about capital market and collects advice and proposals for the Company's operation and development from capital market.

(VIII) SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company had adopted a code of conduct for securities transactions by Directors and Supervisors no less exacting than the Model Code in Appendix 10 to Hong Kong Listing Rules. The Company had inquired all Directors and Supervisors and confirmed that they had been complying with the aforesaid code during the period from January 1, 2017 to June 30, 2017.

(IX) STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the code provisions set out in the Code during the period from January 1, 2017 to June 30, 2017.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(I) CHANGES IN ORDINARY SHARES

During the reporting period, changes in the Company's ordinary shares were as follows:

Unit: Share, %

	December 31, 2016		Change in the number during the reporting period	June 30, 2017	
	Number	Proportion		Number	Proportion
Domestic shares	14,164,696,778	78.87	–	14,164,696,778	78.87
H shares	3,795,000,000	21.13	–	3,795,000,000	21.13
Total ordinary shares	17,959,696,778	100.00	–	17,959,696,778	100.00

Notes: As of the end of the reporting period, the Company had a total of 27 domestic shareholders and a total of 140 H shareholders.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(II) SHAREHOLDINGS OF TOP TEN SHAREHOLDERS OF ORDINARY SHARES

Unit: Share, %

No.	Name of shareholder	Nature of Shareholder	Change in the shares during the reporting period	Number of shares held at the end of period	Shareholding proportion	Class of Shares	Number of pledged shares
1	HKSCC Nominees Limited ⁽¹⁾ Herein: Zhejiang Seaport (Hong Kong) Co., Limited ⁽²⁾	- -	- +670,500,000	3,794,713,900 670,500,000	21.13 3.73	H shares H shares	Unknown Unknown
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned legal person	-	2,655,443,774	14.79	Domestic shares	-
3	Traveller Automobile Group	Domestic non-state-owned legal person	-	1,346,936,645	7.50	Domestic shares	310,000,000
4	Hengdian Group Holdings Limited	Domestic non-state-owned legal person	-	1,242,724,913	6.92	Domestic shares	143,169,642
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned legal person	-	841,177,752	4.68	Domestic shares	-
6	Minsheng Life Insurance Company Ltd. ⁽³⁾	Domestic non-state-owned legal person	-	803,226,036	4.47	Domestic shares	-
7	Zhejiang Yongli Industry Group Co., Ltd. ⁽⁴⁾	Domestic non-state-owned legal person	+30,000,000	548,453,371	3.05	Domestic shares	548,453,371
8	China Wanxiang Holding Co., Ltd. ⁽³⁾	Domestic non-state-owned legal person	-	543,710,609	3.03	Domestic shares	-
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic non-state-owned legal person	-	518,453,371	2.89	Domestic shares	439,630,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic non-state-owned legal person	-	508,069,283	2.83	Domestic shares	-

Notes:

- (1) The number of shares held by HKSCC Nominees Limited was the sum of shares in the accounts of the Company's holders of H shares which were trading in its transaction system.
- (2) During the reporting period, Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. transferred 670,500,000 H shares of the Company held by it to its related party, Zhejiang Seaport (Hong Kong) Co., Limited (Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. held the 100% equity interest of Zhejiang Seaport Asset Management Co., Limited and held the 100% equity interest of Zhejiang Seaport (Hong Kong) Co., Limited through Zhejiang Seaport Asset Management Co., Limited). Upon the completion of the transfer, the H shares of the Company held by Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. and Zhejiang Seaport (Hong Kong) Co., Limited represented 1.84% and 3.73% of the total shares of the Company respectively.
- (3) To the best knowledge of the Company, as of the end of the reporting period, among the top ten shareholders mentioned above, China Wanxiang Holding Co., Ltd. held 37.32% shares of Minsheng Life Insurance Company Ltd.. Apart from that, the Company is not aware of any connection among the above shareholders or whether they are parties acting in concert.
- (4) On April 7, 2017, the Company's shareholder Xizi Lift Co., Ltd. transferred 30,000,000 domestic shares of the Company to Zhejiang Yongli Industry Group and registered with the China Securities Depository and Clearing Corporation Limited. After the transfer, Xizi Lift Co., Ltd. holds 469,708,035 domestic shares of the Company, accounting for 2.62% of the total shares of the Company; Zhejiang Yongli Industry Group holds 548,453,371 domestic shares of the Company, accounting for 3.05% of the total shares of the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(III) INTERESTS IN ORDINARY SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of the end of the reporting period, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest and short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	Domestic Shares	Long position	2,655,443,774	14.79	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Share	Long position	2,655,443,774	14.79	18.75
China WanXiang Holding Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Lu Weiding	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Traveller Automobile Group	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Jiang Jinsheng (蔣金聲)	Interests of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Qiu Jianlin	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Group Holdings Limited	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Lou Zhongfu	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Chen Xiabin	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.74	6.00
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.68	5.94
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.47	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital(%)	Approximate percentage of the relevant class of shares (%)
Shaoxing Keqiao District State-owned Assets Investment and Management Group Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,000,000,000	5.57	26.35
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.81	18.05
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	670,500,000	3.73	17.67
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	670,500,000	3.73	17.67
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	497,934,000	2.77	13.12
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	497,934,000	2.77	13.12
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	497,934,000	2.77	13.12
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.73	12.91
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.39	6.59
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Liu Yaozhong	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital(%)	Approximate percentage of the relevant class of shares (%)
Shenzhen Qianhai Guangda Xikang Industry Fund Company (Limited Partnership) (深圳前海光太熙康產業基金企業(有限合夥))	Beneficial owner	H Shares	Long position	249,999,000	1.39	6.59
Zhuji Tongrui Machinery Technology Co., Ltd. (諸暨通瑞機械科技有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Zhuji Yutian Corporate Management and Consultation Co., Ltd. (諸暨裕天企業管理諮詢有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Hong Kong Bao Da Financial Holdings Limited	Beneficial owner	H Shares	Long position	207,760,000	1.16	5.47
Bao Da Financial International Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Great Sphere Developments Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
China Goldjoy Group Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Tinmark Development Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Yao Jianhui	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Hong Kong Xinhui Investment Co., Ltd.	Beneficial owner	H Shares	Long position	199,037,000	1.11	5.24
Xinhui Zhongbao Co., Ltd.	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Zhejiang Xinhui Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Huang Wei	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Shenwan Hongyuan Group Co., Ltd.	Beneficial owner	H Shares	Long position	195,000,000	1.09	5.14
China Jiayin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	195,000,000	1.09	5.14

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on June 30, 2017.

(IV) INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.79% of the Shares of the Company and was the Company's largest Shareholder of the ordinary shares.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with a registered capital of RMB12.0 billion, and is a financial investment management platform established by Zhejiang Provincial Government. The company is a state-owned enterprise directly subordinated to the provincial government, which is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial investment, government equity investment fund management and asset management business.

(V) ISSUANCE AND LISTING OF SECURITIES

During the reporting period, the Bank issued no ordinary shares. For the issuance of Offshore Preference Shares, refer to Information about Offshore Preference Shares.

(VI) INFORMATION ABOUT OFFSHORE PREFERENCE SHARES

1. Issuance and Listing of Offshore Preference Shares

Pursuant to the approval of the CBRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360) the Bank made a non-public issuance of US\$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US\$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017.

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBRC and the CSRC, the capital raised from the Offshore Preference Shares issuance were used to replenish the Bank's Additional Tier 1 Capital, increase the Tier 1 Capital Adequacy Ratio of the Bank and optimize the capital structure.

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US\$/share)	Initial Annual Dividend Rate (%)	Issue Volume (Share)	Total Issue Amount (US\$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	2017/3/29	20	5.45	108,750,000	2,175,000,000	2017/3/30	108,750,000

2. Relevant articles with respect to the Offshore Preference Shares have been included to the Company's Articles of Association, which can be found on the websites of the Hong Kong Stock Exchange and the Company.

3. Number of Shareholders and Shareholding of Offshore Preference Shares

As of the end of the reporting period, the total number of shareholders (or nominee) of the Company for the Offshore Preference Shares was one, being The Bank of New York Depository (Nominees) Limited as the nominee.

Name of Shareholders	Nature of Shareholder	Share Class	Increase/ Decrease during the Reporting Period (Share)	Shareholding Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
The Bank of New York Depository (Nominees) Limited	Foreign legal Person	Offshore Preference Shares	108,750,000	100	108,750,000	-	Unknown

Notes:

- (1) Particulars of shareholding of the Offshore Preference Shareholders were calculated according to the information specified in the register of Offshore Preference Shareholders of the Bank.
- (2) As the issuance was an offshore non-public offering, the register of Offshore Preference Shareholders set out the information of the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as the nominee of the places in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as of the end of the reporting period.

4. Distribution of Profits from the Offshore Preference Shares

The Bank paid the dividend to the holders of the Offshore Preference Shares in cash once a year. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in distribution of the remaining profits with the holders of the ordinary shares.

During the reporting period, the issued Offshore Preference Shares were not due for dividend distribution and there was no dividend payment in respect of the Offshore Preference Shares.

5. Redemption or Conversion of Offshore Preference Shares

During the reporting period, there was no redemption or conversion of the Offshore Preference Shares issued by the Bank.

6. Restoration of Voting Rights of Offshore Preference Shares

During the reporting period, there was no restoration of voting rights of the Offshore Preference Shares issued by the Bank.

7. Accounting Policies Adopted for Offshore Preference Shares and the Reasons Thereof

In accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments* and the Rules on Differences between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as *IAS 39-Financial Instruments: Recognition and Measurement* and *IAS 32-Financial Instruments: Disclosures and Presentation* formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares meet the requirements of being accounted as equity instruments, so they can be calculated as the equity instruments.

(I) BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the end of the reporting period, the structure of the Board of Directors, the Board of Supervisors and Senior Management of the Company is as follows:

The Board of Directors of our Company consists of 17 Directors, including four executive Directors: Mr. Shen Renkang, Mr. Liu Xiaochun, Ms. Zhang Luyun and Mr. Xu Renyan; seven non-executive Directors: Mr. Wang Mingde, Ms. Wang Yibing, Ms. Shen Xiaojun, Ms. Gao Qinhong, Mr. Hu Tiangao, Ms. Lou Ting and Mr. Zhu Weiming; and six independent non-executive Directors: Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu.

The Board of Supervisors of our Company consists of 13 Supervisors, including four shareholder representative Supervisors: Mr. Yu Jianqiang, Mr. Tao Xuegen, Mr. Zhou Yang and Mr. He Xudong; four Employee representative Supervisors: Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Ge Lixin and Mr. Zhang Rulong; and five external Supervisors: Mr. Jiang Zhihua, Mr. Yuan Xiaoqiang, Mr. Huang Zuhui, Mr. Wang Jun and Ms. Cheng Huifang.

The Senior Management of our Company consists of 8 members: Mr. Liu Xiaochun, Mr. Xu Renyan, Mr. Ye Jianqing, Mr. Zhang Changgong, Mr. Xu Manxuan, Mr. Wu Jianwei, Mr. Liu Long and Mr. Jiang Yulin.

(II) THE INFORMATION OF THE APPOINTMENT AND RESIGN OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, there was no change in the Directors.

During the reporting period, changes in the Supervisors were as follows: On May 27, 2017, Mr. Dong Zhoufeng has reached retirement age and resigned the position as an employee supervisor of the Bank. On the same day, the employee representatives' meeting of the Company elected Mr. Wang Chengliang as an employee supervisor of the Bank.

Wang Chengliang, postgraduate and senior economist, had worked in People's Bank of China Wenzhou Branch, and successively held the positions of Chief of Planning Subsection of Ou Hai County Sub-Branch, Vice Chief of Planning Subsection of Wenzhou Branch, Vice President of Ou Hai County Sub-Branch and Wenzhou Chengnan Sub-Branch, Chief of Planning Division and the first Business Division of Wenzhou Branch, and President of Wenzhou Wuma Sub-Branch of the ICBC; Vice President and President of China Guangfa Bank Wenzhou Branch; General Manager of Wenzhou Business Department and President of Wenzhou branch of CZBank. He's been serving as General Manager of the HR Department of the Bank since August 2016.

During the reporting period, changes in the Senior Management were as follows: On May 26, 2017, Mr. Feng Jiansong submitted his resignation to the Board of Directors of the Company due to personal reasons. According to relevant provisions of the Articles of Association, the Board of Directors determined to dismiss Mr. Feng Jiansong's position as president assistant of the Company.

(III) CHANGES OF POSITIONS OF DIRECTORS AND SUPERVISORS

Mr. Xu Renyan, an executive Director of the Company, serves as Chairman of Zheyin Financial Leasing.

Ms. Wang Yibing, a non-executive Director of the Company, acts as a director of Zhejiang Jinhai Investment Co., Ltd.

Mr. Tong Benli, an independent non-executive Director of the Company, acts as an independent non-executive director of Zhejiang Zhengyuan Zhihui Technology Co., Ltd. (Listed on Shenzhen Stock Exchange, Stock Code: 300645), Zhejiang Anglikang Pharmaceutical Co., Ltd., Zhejiang Changqiao Travelling Investment Co., Ltd., and Zhejiang Pujiang Rural Commercial Bank Co., Ltd. (浙江浦江農村商業銀行股份有限公司), and has ceased to be the vice president of Zhejiang Provincial Auditing Society.

Mr. Yuan Fang, an independent non-executive Director of the Company, acts as the Chairman of the Supervisory Committee of Zhejiang Qiantangjiang Jinyanyuan Consultation Co., Ltd. and has ceased to be the chairman of Zhejiang Provincial Securities and Listed Company Research Association.

Mr. Liu Pak Wai, an independent non-executive Director of the Company, acts as a council member of Shenzhen Finance Institute.

Mr. He Xudong, a shareholder representative supervisor of the Company, acts as the shareholder representative supervisor of Industrial Bank Co., Ltd.

(IV) EMPLOYEES

As of the end of the reporting period, we had 12,304 employees in total (including 666 employees under a labour despatch arrangement), the number of which increased by 999 compared with the beginning of the year. Based on the position types, 5,417 were marketing personnel, 1,454 were counter personnel, and 5,433 were mid-office and back-office personnel; based on educational levels, 2,263 obtained post-graduate degree or above (including 61 with doctorate degree), 8,370 obtained bachelor degree, and 1,671 obtained associate degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 17 employees had retired from the Company.

(V) EMPLOYEE REMUNERATION POLICY

Following the remuneration policies that are in line with our development strategies, guided by the concept of people-oriented, driven by market, and equipped with comprehensive standardized management, the Bank improved its remuneration management mechanism that determines the remuneration according to the salary levels based on position types, and optimized the remuneration determination mechanism that is based on individual performance and organizational performance. Focused mainly on capability and performance, we tried to establish a market-driven remuneration system that embodies internal fairness and external competitiveness, spurs development of both the employees and the Company, and emphasizes both incentives and restraint, and is based on the value of positions.

The Bank's remuneration policy was coordinated with the risk management system, and matched with the scale of institutions, business nature and complexity degree. Therein, the Bank linked the distribution of total remuneration to its branches with the comprehensive benefits achieved by institutions, fully consider all kinds of risk factors, guide the entire bank to focus on value creation after risk adjustment, and improve the long-term performance; the Bank linked the remuneration distribution to the employees with the responsibility and risk degree of specific posts, and adopted different ways of assessment and performance distribution for different types of employees. The remuneration to employees of the risk and compliance department was determined according to their value contributions, duty performance ability and business performance, which had no direct connection with their supervision business, and were independent from other business fields.

(VI) EMPLOYEES TRAINING

Centered on our operation and development strategies, based on the improvement of professional capabilities and operating results, and on the basis of carrying out all-staff training program, our Company highlights the cultivation of core, key and special talents and practices a variety of trainings including leadership training, business line core personnel training and training for personnel holding key positions, so as to raise the management capabilities and professional capabilities of our employees. During the reporting period, the Company held 935 training courses in total with 69,997 attendances.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

(VII) INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees	
Yangtze River Delta region	Headquarters	No. 288, Qingchun Road, Hangzhou	95527	310006	1	1,733	
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	43	
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	10	519	
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	15	811	
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	7	381	
	Hangzhou Branch	No. 736, Jianguo North Road, Hangzhou	0571-87330733	310004	37	2,093	
	Ningbo Branch	No. 739, Zhongxing Road, Jiangdong District, Ningbo	0574-81855678	315040	14	615	
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	10	460	
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166066	312030	9	417	
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-85190218	322000	5	351	
	Zhoushan Branch	Pavilion 2, No. 111, Haiyu Road, Lincheng Town, Zhoushan	0580-2260302	316021	2	104	
	Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	8	626
		Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271223	300204	10	524
		Shenyang Branch	No. 56, Qingnian main street, Shenhe District, Shenyang	024-31259003	110014	5	260
Jinan Branch		No. 185, Heihuquan West Road, Lixia District, Jinan, Shandong	0531-80961706	250011	7	600	
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	1	303	
	Shenzhen Branch	Times Science and Technology Mansion, No. 7028, Shennan Avenue, Futian District, Shenzhen	0755-82760666	518040	7	415	
Midwestern China	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277306	450008	1	120	
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430000	1	181	
	Chongqing Branch	Xingguang Building Block A, No. 1, Xingguang Avenue, New Liang Jiang Zone, Chongqing	023-88280800	401121	6	392	
	Chengdu Branch	No. 39, Ximianqiao Street, Wuhou District, Chengdu	028-85579955	610041	9	490	
	Xi'an Branch	No. 311, West Avenue, Xi'an	029-88121212	710002	9	471	
	Lanzhou Branch	No. 308, Baiyin Road, Chengguan District, Lanzhou	0931-8172110	730030	6	395	
Total	—	—	—	—	181	12,304	

(I) PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listing securities.

(II) USAGE OF PROCEEDS RAISED

During the reporting period, the Company issued successfully the Offshore Preference Shares subscribed in U.S. dollars, in Hong Kong on March 29, 2017, and raised the total capital of RMB14.989 billion. After deduction of the expenses relating to the issuance, the raised capital was fully used to replenish the Company's Additional Tier 1 Capital, increase the Company's Tier 1 Capital Adequacy Ratio and optimize the capital structure of the Company.

The Company completed its initial public offering of H Shares before the reporting period. According to the usage disclosed in the prospectus, the proceeds raised are used for supplementing the Company's capital to meet the needs for sustained growth of our businesses.

(III) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal proceedings in the ordinary course of business. Most of these litigations are filed by the Company in order to recover non-performing loans and include litigations arising from disputes with customers. As of the end of the reporting period, there were nine pending litigations to which the Company was a defendant involving an amount of RMB2.15 million. The Company expects that such pending litigations will not materially and adversely affect the Company's business, financial position or operating results.

(IV) MATERIAL RELATED PARTY TRANSACTIONS

During the reporting period, we provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which include our connected persons (including certain shareholders, Directors, Supervisors, Senior Management and/or their respective associates). These transactions are entered into on normal commercial terms (or better terms in favor of the Company) in the ordinary and usual course of our business, and thus are fully exempt from the disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

We also enter into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or favourable terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company for the half year ended June 30, 2017 are set out in “Notes to the Financial Statements - 38 Related Party Transactions”.

Saved as disclosed above, no related party transactions set out in “Note to the Financial Statements - 38 Related Party Transactions” fall within the definition of “connected transactions” or “continuing connected transaction” in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(V) MATERIAL CONTRACTS AND THEIR PERFORMANCE

Significant events relating to custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBRC, there were no other significant guarantees required to be disclosed.

(VI) MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

(VII) STOCK INCENTIVE PLAN

The Company did not implement a stock incentive plan during the reporting period.

(VIII) EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

(IX) INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE COMPANY

As of the end of the reporting period, except as disclosed in this report, none of the Company's Directors, chief executives, Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of Hong Kong SFO) which were required to be recorded in the register required to be kept under Section 352 of Hong Kong SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(X) DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, Board of Supervisors, the Supervisors and Senior Management of the Company and Shareholders holding 5% or more shares during the reporting period.

(XI) REVIEW OF THE INTERIM RESULTS

PricewaterhouseCoopers, the external auditor of the Company, has reviewed the interim financial report of the Company which was prepared under the disclosure requirements of International Accounting Standards and Hong Kong Listing Rules.

The interim report of the Company has been reviewed and approved by the Board of Directors and the Audit Committee of the Board of Directors of the Company.

(XII) PUBLISHING THE INTERIM REPORT

The English and Chinese version of the interim report prepared by the Company in accordance with IFRSs and Hong Kong Listing Rules are available on the website of Hong Kong Stock Exchange and the Company's website.

TO THE BOARD OF DIRECTORS OF CHINA ZHESHANG 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 84 to 144, which comprises the condensed interim consolidated statement of financial position of China Zheshang Bank Co., Ltd. (the "Bank") and its subsidiary (together, the "Group") as at 30 June 2017 and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and 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 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2017

CONDENSED INTERIM CONSOLIDATED STATEMENT OF INCOME

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

		Unaudited	
		For the six months ended 30 June	
	Note	2017	2016
Interest income	4	30,070,785	26,663,469
Interest expense	4	(17,686,168)	(14,701,633)
Net interest income		12,384,617	11,961,836
Fee and commission income	5	5,238,466	3,297,004
Fee and commission expense	5	(148,718)	(90,351)
Net fee and commission income		5,089,748	3,206,653
Net trading (losses)/gains	6	(222,200)	192,450
Net gains on financial investments	7	547,292	584,230
Other operating income	8	149,324	19,206
Operating income		17,948,781	15,964,375
Operating expenses	9	(5,431,360)	(4,589,093)
Impairment losses on assets	11	(5,207,078)	(5,129,298)
Operating profit		7,310,343	6,245,984
Profit before income tax		7,310,343	6,245,984
Income tax expense	12	(1,708,126)	(1,511,162)
Net profit		5,602,217	4,734,822
Net profit attributable to:			
Shareholders of the Bank		5,613,405	4,734,822
Non-controlling interests		(11,188)	–
		5,602,217	4,734,822
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	13	0.31	0.29

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Unaudited	
	For the six months ended 30 June	
	2017	2016
Net profit	5,602,217	4,734,822
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	(830,263)	(468,204)
Related income tax impact	207,566	117,050
Total other comprehensive income, net of tax	(622,697)	(351,154)
Total comprehensive income for the year	4,979,520	4,383,668
Total comprehensive income attributable to:		
Shareholders of the Bank	4,990,708	4,383,668
Non-controlling interests	(11,188)	–
	4,979,520	4,383,668

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	30 June 2017 Unaudited	31 December 2016 Audited
ASSETS			
Cash and balances with central bank	14	130,018,395	124,269,106
Precious metal		13,711,912	3,952,824
Due from banks and other financial institutions	15	69,287,199	98,442,129
Financial assets at fair value through profit or loss	16	79,273,757	23,131,819
Derivative financial assets	17	3,853,588	4,780,282
Loans and advances to customers	18	512,472,020	443,668,657
Financial investments	19		
– Available-for-sale		76,002,376	61,466,941
– Held-to-maturity		52,695,158	41,532,932
– Debt instruments classified as receivables		489,244,675	537,036,109
Property, plant and equipment	20	3,715,007	3,045,701
Deferred income tax assets	21	6,044,900	4,601,026
Other assets	22	16,971,307	8,926,993
Total assets		1,453,290,294	1,354,854,519
LIABILITIES			
Due to banks and other financial institutions	23	359,024,730	394,108,821
Financial liabilities at fair value through profit or loss	24	3,151,701	13,875,609
Derivative financial liabilities	17	3,411,427	4,126,534
Customer deposits	25	803,067,535	736,243,698
Income tax payable		1,967,248	2,560,351
Other liabilities	27	28,707,479	21,868,878
Debt securities issued	26	168,145,972	114,595,250
Total liabilities		1,367,476,092	1,287,379,141

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	30 June 2017 Unaudited	31 December 2016 Audited
EQUITY			
Share capital	28	17,959,697	17,959,697
Other equity instruments	29	14,957,664	–
Capital reserve	28	19,974,808	19,990,020
Surplus reserve	30	3,790,406	3,790,406
Statutory general reserve	30	17,243,730	13,242,456
Investment revaluation reserve	31	(923,175)	(300,478)
Retained earnings		11,352,260	12,793,277
Equity attributable to shareholders of the Bank		84,355,390	67,475,378
Non-controlling interests		1,458,812	–
Total equity		85,814,202	67,475,378
Total liabilities and equity		1,453,290,294	1,354,854,519

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

The condensed interim consolidated financial information were approved by the Board of Directors 24 August 2017 and were signed on its behalf by:

Shen Renkang

Legal Representative, Chairman of Board

Liu Xiaochun

Vice Chairman of Board, President

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to shareholders of the Bank								Total
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Non-controlling interests	
	(Note 28)	(Note 29)	(Note 28)	(Note 30)	(Note 30)	(Note 31)			
Balance at 1 January 2017	17,959,697	-	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	-	67,475,378
Net profit for the year	-	-	-	-	-	-	5,613,405	(11,188)	5,602,217
Other comprehensive income for the period	-	-	-	-	-	(622,697)	-	-	(622,697)
Total comprehensive income	-	-	-	-	-	(622,697)	5,613,405	(11,188)	4,979,520
Contribution of non-controlling shareholders	-	-	-	-	-	-	-	1,470,000	1,470,000
Other equity instruments issued	-	14,957,664	(15,212)	-	-	-	-	-	14,942,452
Appropriation to statutory general reserve	-	-	-	-	4,001,274	-	(4,001,274)	-	-
Cash dividend	-	-	-	-	-	-	(3,053,148)	-	(3,053,148)
Balance at 30 June 2017	17,959,697	14,957,664	19,974,808	3,790,406	17,243,730	(923,175)	11,352,260	1,458,812	85,814,202
Balance at 1 January 2016	14,509,697	-	12,181,167	2,775,091	8,241,258	958,448	10,991,403	-	49,657,064
Net profit for the year	-	-	-	-	-	-	4,734,822	-	4,734,822
Other comprehensive income for the period	-	-	-	-	-	(351,154)	-	-	(351,154)
Total comprehensive income	-	-	-	-	-	(351,154)	4,734,822	-	4,383,668
Issuance of new shares	3,450,000	-	7,970,613	-	-	-	-	-	11,420,613
Appropriation to statutory general reserve	-	-	-	-	5,001,198	-	(5,001,198)	-	-
Cash dividend	-	-	-	-	-	-	(2,334,761)	-	(2,334,761)
Balance at 30 June 2016	17,959,697	-	20,151,780	2,775,091	13,242,456	607,294	8,390,266	-	63,126,584

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

		Unaudited	
		For the six months ended 30 June	
	Note	2017	2016
Cash flows from operating activities:			
Profit before income tax		7,310,343	6,245,984
Adjustments:			
Depreciation and amortization	9	144,981	113,885
Impairment losses on loans	11	3,117,041	3,666,973
Impairment losses on other assets	11	2,090,037	1,462,325
Net gains on de-recognition of financial investments		(547,292)	(584,230)
Fair value changes in financial assets at fair value through profit or loss and derivatives		347,039	25,256
Interest income from financial investments		(14,050,959)	(14,363,494)
Interest expense from debt securities issued	4	2,264,318	1,721,908
Net change in operating assets and operating liabilities:			
Net decrease/(increase) in restricted deposit balances with central bank		569,107	(13,894,809)
Net decrease in due from banks and other financial institutions		17,337,878	41,686,624
Net increase in financial assets at fair value through profit or loss		(56,319,577)	(3,272,449)
Net increase in loans and advances to customers		(71,997,880)	(66,510,166)
Net increase in other operating assets		(17,095,650)	(481,951)
Net decrease in due to banks and other financial institutions		(35,084,091)	(20,035,195)
Net increase in customer deposits		66,823,837	128,528,697
Net (decrease)/increase in other operating liabilities		(7,156,737)	16,797,673
Cash (used in)/generated from operating activities before tax		(102,247,605)	81,107,031
Income tax paid		(3,537,537)	(2,640,205)
Net cash (used in)/generated from operating activities		(105,785,142)	78,466,826

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

		Unaudited For the six months ended 30 June	
	Note	2017	2016
Cash flows from investing activities:			
Purchase of property and equipment, intangible assets and other long-term assets		(903,236)	(149,563)
Interest received from financial investments		13,904,581	14,391,572
Proceeds from disposal and redemption of financial investments		760,411,084	421,577,058
Purchase of financial investments		(740,355,163)	(520,232,903)
Net cash generated from/(used in) investing activities		33,057,266	(84,413,836)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		–	11,420,613
Proceeds from issuance of preferred shares		14,942,452	–
Capital contribution by non-controlling interests of a subsidiary		1,470,000	–
Proceeds from issuance of debt securities		79,135,972	86,237,502
Cash paid for repayment of debt securities		(25,585,250)	(78,760,000)
Interest paid on debt securities issued		(2,264,318)	(323,397)
Dividends paid on ordinary shares		(6,833)	(22,665)
Net cash generated from financing activities		67,692,023	18,552,053
Effect of exchange rate changes on cash and cash equivalents		(462,803)	178,484
Net (decrease)/increase in cash and cash equivalents		(5,498,656)	12,783,527
Cash and cash equivalents at beginning of the period		50,177,326	18,995,308
Cash and cash equivalents at end of the period	37	44,678,670	31,778,835
Net cash flows from operating activities including:			
Interest received		15,886,869	12,685,326
Interest paid		(15,077,288)	(13,553,113)

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



1 GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the 'Bank') is a national joint-stock commercial bank and was established in Zhejiang Province, the People's Republic of China (the 'PRC') on 26 July 2004 with the approval from China Banking Regulatory Commission ('CBRC'). The Bank was listed on The Stock Exchange of Hong Kong Limited on 30 March 2016.

As at 30 June 2017, the Bank has established 180 branch outlets in 14 provinces (municipalities) in Mainland China, including 44 branches (21 of them are tier-one branches), one branch-level specialized institution and 135 sub-branches. As at 30 June 2017, the bank has one subsidiary (Note 3). The Bank and its subsidiary are collectively referred to as the 'Group'. The principal activities of the Group include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business, finance leasing and other banking service as approved by the CBRC.

These financial statements have been approved by the Bank's Board of Directors on 24 August 2017.

2 PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

(a) Basis of presentation

The unaudited condensed interim consolidated financial information of the Group has been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" and disclosure requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards.

(b) Principal accounting policies

Except as described below, the adoption of the accounting policy and critical accounting estimates and judgements in applying accounting policies of the condensed interim financial information is the same as that adopted in the financial report for the year ended 31 December 2016.

New and revised IFRSs effective by 1 January 2017 applied by the Group

Amendments to IAS 7	Statement of cash flows
Amendments to IAS 12	Income taxes
Amendments to IFRS 12	IASB Annual Improvements 2014-2016 cycle

The application of these new and revised IFRSs do not have a material impact to the Group.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(continued)*

(b) Principal accounting policies *(continued)*

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IAS 40	Transfer of investment property	1 January 2018
Amendments to IAS 28	IASB Annual Improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Lease	1 January 2019
IFRS 17	Insurance contracts	1 January 2021

IFRS 9 will have an impact on the Group's financial statements. The Group has set up a project team to carry out preparatory work in phases. The Group will establish new financial asset classification standards, revise the financial asset impairment model and related disclosures in the financial statements in accordance with IFRS 9. The Group will also update the internal controls and policies and upgrade the relevant IT system to meet the IFRS 9 implementation requirements. The Group anticipates the overall implementation preparation to be completed by the end of 2017. Currently the Group is carrying out the preparatory work as planned, and in the process of evaluating the impact of IFRS 9 implementation on the Group's consolidated financial statements.

The Group is also considering the impact of IFRS 16 on the Group's consolidated financial statements.

Despite the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(continued)*

(b) Principal accounting policies *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and subsidiaries (including structured entities) controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the shareholders of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(c) Critical accounting estimates and judgments in applying accounting policies

The preparation of unaudited condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2016.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUBSIDIARY

Name of entity	Date of incorporation	Place of incorporation	Principal activities	Registered capital	Proportion of equity Interest
Zhejiang Zhe Yin Financial Leasing Co., LTD.	18 January 2017	Zhejiang	Finance industry	3,000,000	51%

4 NET INTEREST INCOME

	For the six months ended 30 June	
	2017	2016
Interest income		
Balances with central bank	889,565	686,631
Due from banks and other financial institutions	1,830,053	1,105,632
Loans and advances to customers	12,783,142	10,223,271
Financial assets at fair value through profit or loss	517,066	284,441
Financial investments	14,050,959	14,363,494
Subtotal	30,070,785	26,663,469
Including: Interest income from impaired financial assets	34,237	48,455
Interest expense		
Due to banks and other financial institutions	(8,300,745)	(6,782,027)
Customer deposits	(7,121,105)	(6,197,698)
Debt securities issued	(2,264,318)	(1,721,908)
Subtotal	(17,686,168)	(14,701,633)
Net interest income	12,384,617	11,961,836

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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5 NET FEE AND COMMISSION INCOME

	For the six months ended 30 June	
	2017	2016
Fee and commission income		
Asset management business	3,913,577	2,260,518
Underwriting service	246,103	249,393
Credit commitment	223,215	283,331
Agency service	142,589	211,410
Custodian and other fiduciary service	219,292	71,391
Settlement business	42,841	62,153
Others	450,849	158,808
Total	5,238,466	3,297,004
Fee and commission expense	(148,718)	(90,351)
Net fee and commission income	5,089,748	3,206,653

6 NET TRADING GAINS OR LOSSES

	For the six months ended 30 June	
	2017	2016
Net gains/(losses) from:		
Trading financial instruments	(62,701)	(66,925)
Derivative financial instruments	(19,168)	102,100
Exchange differences	(140,331)	157,275
Total	(222,200)	192,450

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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7 NET GAINS ON FINANCIAL INVESTMENTS

	For the six months ended 30 June	
	2017	2016
Net gains from:		
Net gains arising from de-recognition of available-for-sale	164,225	333,548
Others	383,067	256,682
Total	547,292	584,230

8 OTHER OPERATING INCOME

	For the six months ended 30 June	
	2017	2016
Government grants	15,283	2,219
Gains on disposal of fixed assets	962	107
Other miscellaneous income	133,079	16,880
Total	149,324	19,206

9 OPERATING EXPENSES

	For the six months ended 30 June	
	2017	2016
Staff costs (Note 10)	3,564,002	2,819,088
General and administrative expenses	1,345,559	885,979
Rental expenses	256,497	200,593
Tax and surcharges	112,114	552,117
Depreciation of property, plant and equipment (Note 20)	84,914	64,852
Amortization of long-term prepaid expenses	36,736	30,282
Amortization of intangible assets (Note 22(ii))	15,414	13,073
Amortization of land use rights (Note 22(ii))	7,917	5,678
Donations	3,012	2,011
Others	5,195	15,420
Total	5,431,360	4,589,093

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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10 STAFF COSTS

	For the six months ended 30 June	
	2017	2016
Salaries and bonuses	2,755,623	2,324,567
Pension costs – Defined contribution plans	432,425	256,133
Housing funds	101,029	76,203
Labor union fee and staff education expenses	77,332	49,382
Other social security and benefit costs	197,593	112,803
Total	3,564,002	2,819,088

11 IMPAIRMENT LOSSES ON ASSETS

	For the six months ended 30 June	
	2017	2016
Loans and advances to customers (Note 18(b))		
– Collectively assessed	2,121,313	2,132,032
– Individually assessed	995,728	1,534,941
Debt instruments classified as receivables	2,020,051	1,462,387
Others	69,986	(62)
Total	5,207,078	5,129,298

12 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
Current income tax	2,944,434	2,182,462
Deferred income tax (Note 21)	(1,236,308)	(671,300)
Total	1,708,126	1,511,162

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

12 INCOME TAX EXPENSE *(continued)*

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

	For the six months ended 30 June	
	2017	2016
Profit before income tax	7,310,343	6,245,984
Tax calculated at a tax rate of 25%	1,827,586	1,561,496
Tax effect arising from income not subject to tax (i)	(176,066)	(76,047)
Tax effect of expenses that are not deductible for tax purposes (ii)	56,606	25,713
Income tax expense	1,708,126	1,511,162

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which were not deductible for tax purposes according to PRC tax regulations.

13 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 outstanding in issue during the period.

	For the six months ended 30 June	
	2017	2016
Net profit attributable to shareholders of the Bank (in RMB thousands)	5,613,405	4,734,822
Weighted average number of ordinary shares in issue (in thousands)	17,959,697	16,199,257
Basic earnings per share (in RMB yuan)	0.31	0.29

For the six months ended 30 June 2017, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on 29 March 2017 and the terms and conditions as detailed in Note 29. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2017, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

14 CASH AND BALANCES WITH CENTRAL BANK

	30 June 2017	31 December 2016
Cash	344,589	309,803
Mandatory reserve deposits with central bank (a)	105,751,412	106,348,030
Surplus reserve deposits with central bank (b)	23,884,580	17,600,970
Fiscal deposits	37,814	10,303
Total	130,018,395	124,269,106

- (a) The Group is required to place mandatory reserve deposits and mandatory reserve for foreign forward exchange with the People's Bank of China ('PBOC'). These mandatory reserves are not available for use in the daily business of the Group.

As of 30 June 2017, the mandatory reserve deposit rates of the Bank were as follows:

	30 June 2017	31 December 2016
Mandatory reserve rate for deposits denominated in RMB (i)	14.5%	14.5%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	5%	5%
Mandatory reserve rate for foreign forward exchange (ii)	20%	20%

- (i) Based on deposit balance on the end of reporting period.
- (ii) Based on contractual amount of foreign forward exchange during the period.
- (b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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15 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Deposits with banks and other financial institutions	30,869,876	52,036,503
Securities purchased under resale agreements	23,054,170	44,487,285
Placements with banks and other financial institutions	2,974,625	1,918,341
Notes purchased under resale agreements	12,388,528	–
Total	69,287,199	98,442,129

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017	31 December 2016
Government bonds		
– Listed outside Hong Kong	4,514,158	3,609,537
Other debt securities		
– Listed outside Hong Kong	38,147,453	19,522,282
Fund investments		
– Listed outside Hong Kong	36,612,146	–
Total	79,273,757	23,131,819

As of 30 June 2017 and 31 December 2016, all financial assets at fair value through profit or loss of the Group were held for trading.

As of 30 June 2017 and 31 December 2016, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic inter-bank bond market are included under the category of 'Listed outside Hong Kong'.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

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

	30 June 2017	31 December 2016
Issuers in the PRC		
– Government	4,514,158	3,609,537
– Banks and other financial institutions	24,862,446	19,205,523
– Corporates	13,285,007	316,759
– Fund investments	36,612,146	–
Total	79,273,757	23,131,819

17 DERIVATIVE FINANCIAL INSTRUMENTS

Below listed the nominal value and fair value of derivative financial instruments held for trading:

	Nominal value	Fair value	
		Asset	Liability
30 June 2017			
Swap contracts	478,463,884	3,319,478	(3,157,567)
Option contracts	56,753,187	353,774	(201,826)
Forward contracts	562,104	180,336	(52,034)
Total	535,779,175	3,853,588	(3,411,427)
31 December 2016			
Swap contracts	515,633,961	4,510,708	(3,772,549)
Option contracts	25,290,255	73,066	(301,102)
Forward contracts	3,623,253	196,508	(52,883)
Total	544,547,469	4,780,282	(4,126,534)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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18 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2017	31 December 2016
Corporate loans and advances		
– Loans and advances	411,605,956	353,200,030
– Discounted bills	9,949,834	18,024,442
	<u>421,555,790</u>	<u>371,224,472</u>
Personal loans and advances		
– Personal business	80,909,994	73,203,499
– Residential mortgage loans	17,588,643	8,812,054
– Others	10,753,018	6,253,028
	<u>109,251,655</u>	<u>88,268,581</u>
Subtotal	<u>530,807,445</u>	<u>459,493,053</u>
Less: Allowance for impairment losses		
– Collectively assessed	(14,998,265)	(13,038,063)
– Individually assessed	(3,337,160)	(2,786,333)
Subtotal	<u>(18,335,425)</u>	<u>(15,824,396)</u>
Loans and advances to customers – net	<u>512,472,020</u>	<u>443,668,657</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Movements on allowance for losses on loans and advances to customers listed by assessment method

	30 June 2017		31 December 2016	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the period/year	13,038,063	2,786,333	8,340,569	1,853,352
Net impairment allowances charged to profit or loss (Note 11)	2,121,313	995,728	5,827,139	2,591,715
Unwinding of discount on allowance	(13,986)	(20,251)	(36,321)	(20,197)
Write-offs	(218,401)	(408,002)	(830,415)	(483,588)
Transfer out	(31,407)	(25,678)	(370,829)	(1,180,504)
Recoveries	110,588	9,030	100,207	25,555
Exchange differences	(7,905)	–	7,713	–
Balance at end of the period/year	14,998,265	3,337,160	13,038,063	2,786,333

(c) Movements on allowance for losses on loans and advances to customers listed by customer category

	30 June 2017		31 December 2016	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Balance at beginning of the period/year	13,051,014	2,773,382	8,592,129	1,601,792
Net impairment allowances charged to profit or loss	2,435,722	681,319	6,992,361	1,426,493
Unwinding of discount on allowance	(25,810)	(8,427)	(35,626)	(20,892)
Write-offs	(565,377)	(61,026)	(1,024,714)	(289,289)
Transfer out	(57,085)	–	(1,551,333)	–
Recoveries	69,936	49,682	70,484	55,278
Exchange differences	(7,905)	–	7,713	–
Balance at end of the period/year	14,900,495	3,434,930	13,051,014	2,773,382

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For the six months ended 30 June 2017
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans listed by assessment method for allowance

30 June 2017

	Identified impaired loans and advances (ii)				
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Corporate loans and advances	415,224,845	1,106,779	5,224,166	6,330,945	421,555,790
Personal loans and advances	108,224,037	1,027,618	–	1,027,618	109,251,655
Allowance for impairment losses	(13,441,722)	(1,556,543)	(3,337,160)	(4,893,703)	(18,335,425)
Loans and advances to customers, net	510,007,160	577,854	1,887,006	2,464,860	512,472,020

31 December 2016

	Identified impaired loans and advances (ii)				
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Corporate loans and advances	366,008,799	926,400	4,289,273	5,215,673	371,224,472
Personal loans and advances	87,382,233	886,348	–	886,348	88,268,581
Allowance for impairment losses	(11,753,716)	(1,284,347)	(2,786,333)	(4,070,680)	(15,824,396)
Loans and advances to customers, net	441,637,316	528,401	1,502,940	2,031,341	443,668,657

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been identified as impaired.

(ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and have been identified as bearing impairment losses, which are measured either individually or collectively.

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For the six months ended 30 June 2017
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Analysis of loans and advances to customers by industry

	30 June 2017		31 December 2016	
	Amount	%	Amount	%
Corporate loans and advances				
Manufacturing	108,931,224	20.52	82,223,489	17.90
Leasing and commercial services	71,390,351	13.45	56,026,555	12.19
Wholesale and retail trade	64,793,931	12.21	64,730,164	14.09
Real estate	48,781,663	9.19	55,305,239	12.04
Administration of water conservancy, environment and public facilities	36,956,899	6.96	23,900,015	5.20
Construction	29,554,827	5.57	26,045,725	5.67
Transportation, storage and postal service	10,202,842	1.92	7,448,445	1.62
Electricity, gas and water production and supply	6,849,117	1.29	6,588,230	1.43
Financing	6,483,750	1.22	5,358,641	1.17
Agriculture, forestry, animal husbandry and fishery	4,539,797	0.86	3,837,283	0.84
Information transmission, computer services and software	4,509,467	0.85	3,132,538	0.68
Mining	4,496,234	0.85	4,857,390	1.06
Accommodation and catering	4,325,604	0.81	3,835,856	0.83
Culture, sports and entertainment	2,901,912	0.55	2,722,151	0.59
Scientific research, technology services and geological prospecting	1,981,046	0.37	1,714,035	0.37
Household services and other services	1,967,112	0.37	1,967,475	0.43
Public administration and social organisations	1,313,560	0.25	2,447,060	0.53
Health, social security and social welfare	1,058,346	0.20	528,407	0.11
Education	568,274	0.11	531,332	0.12
Discounted bills	9,949,834	1.87	18,024,442	3.92
Total corporate loans and advances	421,555,790	79.42	371,224,472	80.79
Total personal loans and advances	109,251,655	20.58	88,268,581	19.21
Gross amount of loans and advances before allowance for impairment	530,807,445	100.00	459,493,053	100.00

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(f) Analysis of loans and advances to customers by security type (Gross amount)

	30 June 2017	31 December 2016
Collateralized loans	204,157,876	180,846,164
Guaranteed loans	167,734,263	133,982,215
Pledged loans	88,081,046	72,495,022
Unsecured loans	60,884,426	54,145,210
Discounted bills	9,949,834	18,024,442
Total	530,807,445	459,493,053

(g) Analysis of loans and advances to customers by geographical areas (Gross amount)

	30 June 2017		31 December 2016	
	Amount	%	Amount	%
Yangtze River Delta region	280,803,578	52.90	243,706,939	53.04
Mid western China	113,419,217	21.37	93,867,159	20.43
Bohai Rim region	87,680,570	16.52	80,273,764	17.47
Pearl River Delta region	48,904,080	9.21	41,645,191	9.06
Total	530,807,445	100.00	459,493,053	100.00

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(h) Analysis of loans and advances to customers by overdue and impaired status

	30 June 2017		31 December 2016	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Neither overdue nor impaired	413,915,352	107,953,443	365,323,385	86,910,829
Overdue but not impaired	1,309,493	270,594	685,414	471,404
Impaired	6,330,945	1,027,618	5,215,673	886,348
Gross	421,555,790	109,251,655	371,224,472	88,268,581
Less: Collective impairment allowances	(11,563,335)	(3,434,930)	(10,264,681)	(2,773,382)
Individual impairment allowances	(3,337,160)	–	(2,786,333)	–
Total allowance	(14,900,495)	(3,434,930)	(13,051,014)	(2,773,382)
Net	406,655,295	105,816,725	358,173,458	85,495,199

(i) Loans and advances neither overdue nor impaired

30 June 2017

	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	404,744,942	9,170,410	413,915,352
Personal loans and advances	107,437,891	515,552	107,953,443
Total	512,182,833	9,685,962	521,868,795

31 December 2016

	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	356,859,022	8,464,363	365,323,385
Personal loans and advances	86,561,195	349,634	86,910,829
Total	443,420,217	8,813,997	452,234,214

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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(j) Loans and advances overdue but not impaired

	30 June 2017				Total
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	
Corporate loans and advances	535,922	342,449	274,378	156,744	1,309,493
Personal loans and advances	90,635	51,149	44,545	84,265	270,594
Total	626,557	393,598	318,923	241,009	1,580,087

	31 December 2016				Total
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	
Corporate loans and advances	375,698	100,766	122,020	86,930	685,414
Personal loans and advances	90,271	69,787	39,833	271,513	471,404
Total	465,969	170,553	161,853	358,443	1,156,818

(k) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	30 June 2017	31 December 2016
Corporate loans and advances	6,330,945	5,215,673
Personal loans and advances	1,027,618	886,348
Total	7,358,563	6,102,021
Fair value of collaterals		
Corporate loans and advances	5,641,148	4,847,943
Personal loans and advances	1,102,441	878,826
Total	6,743,589	5,726,769

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the current collateral and the market conditions.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(l) Overdue loans and advances by overdue days and security type:

	30 June 2017				Total
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	
Unsecured	34,082	172,739	13,776	–	220,597
Guaranteed	826,272	932,338	927,150	8,128	2,693,888
Collateralized	973,981	1,682,621	1,480,360	29,646	4,166,608
Pledged	321,881	138,641	26,181	–	486,703
Total	2,156,216	2,926,339	2,447,467	37,774	7,567,796

	31 December 2016				Total
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	
Unsecured	18,125	52,825	2,098	–	73,048
Guaranteed	420,193	981,608	884,443	5,097	2,291,341
Collateralized	674,846	1,506,487	907,960	7,678	3,096,971
Pledged	13,156	19,128	21,648	–	53,932
Total	1,126,320	2,560,048	1,816,149	12,775	5,515,292

(m) Loans and advances renegotiated

Renegotiated loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule. Renegotiating activities include approval of debtor repayment plans, modification and deferral of payments. Following renegotiating, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Renegotiating 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 continuous review. Renegotiating is most commonly applied to term loans, in particular mid-term and long-term loans. The renegotiated loan balances of the Bank are as follows:

	30 June 2017	31 December 2016
Loans and advances renegotiated	349,610	286,640

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

19 FINANCIAL INVESTMENTS

	30 June 2017	31 December 2016
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	60,873,640	61,283,045
– Inter-bank certificates of deposit	–	158,896
Unlisted		
– Equity securities	25,000	25,000
– Fund investments	15,103,736	–
Total	76,002,376	61,466,941
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	52,695,158	41,532,932
Total	52,695,158	41,532,932
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans sponsored by other financial institutions	483,808,106	520,010,269
– Wealth management products sponsored by other banks	10,464,350	20,093,570
– Debt securities	400,000	400,000
– Inter-bank forfaiting (i)	60,000	–
Subtotal	494,732,456	540,503,839
Less: Allowance for impairment losses	(5,487,781)	(3,467,730)
Debt instruments classified as receivables – Net	489,244,675	537,036,109

Debt instruments traded within China domestic inter-bank bond market are included under the category of 'Listed outside Hong Kong'.

- (i) Inter-bank forfaiting are receivables bought by the Group from the designated negotiating banks under negotiable domestic deferred payment letters of credit. The receivables will be paid irrevocably and unconditionally by the issuing bank of letters of credit on due date.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

19 FINANCIAL INVESTMENTS *(continued)*

Financial investments analyzed by issuer or sponsor are as follows:

	30 June 2017	31 December 2016
Available-for-sale financial assets		
By issuer:		
– Government	12,553,261	12,433,316
– Banks and other financial institutions	36,036,956	36,067,512
– Corporates	12,283,423	12,941,113
Subtotal	60,873,640	61,441,941
Fund investment	15,103,736	–
Equity securities	25,000	25,000
Total	76,002,376	61,466,941
Held-to-maturity investments		
By issuer:		
– Government	35,774,373	22,541,355
– Banks and other financial institutions	16,890,697	8,991,577
– Others	30,088	–
Total	52,695,158	41,532,932
Debt instruments classified as receivables		
By sponsor		
– Trusts and asset management plans sponsored by non-bank financial institutions	483,808,106	520,010,269
– Wealth management products sponsored by other banks	10,464,350	20,093,570
– Other products sponsored by other banks and non-bank financial institutions	460,000	400,000
Total	494,732,456	540,503,839
Less: Allowance for impairment losses	(5,487,781)	(3,467,730)
Debt instruments classified as receivables – Net	489,244,675	537,036,109

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

20 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2017	1,618,498	793,570	153,643	1,324,523	3,890,234
Additions	530,095	86,950	10,642	130,154	757,841
Transfer from construction in progress	91	–	–	(91)	–
Disposals	–	(7,425)	(3,014)	–	(10,439)
Other	–	–	–	(2,957)	(2,957)
At 30 June 2017	2,148,684	873,095	161,271	1,451,629	4,634,679
Accumulated depreciation					
At 1 January 2017	(390,505)	(360,983)	(93,045)	–	(844,533)
Charge for the period	(30,640)	(45,517)	(8,757)	–	(84,914)
Disposals	–	6,912	2,863	–	9,775
At 30 June 2017	(421,145)	(399,588)	(98,939)	–	(919,672)
Net book value					
At 30 June 2017	1,727,539	473,507	62,332	1,451,629	3,715,007
Cost					
At 1 January 2016	1,220,590	639,339	130,505	1,183,834	3,174,268
Additions	113,809	169,763	29,990	430,135	743,697
Transfer from construction in progress	284,099	–	–	(284,099)	–
Disposals	–	(15,532)	(6,852)	–	(22,384)
Other	–	–	–	(5,347)	(5,347)
At 31 December 2016	1,618,498	793,570	153,643	1,324,523	3,890,234
Accumulated depreciation					
At 1 January 2016	(342,451)	(302,717)	(84,468)	–	(729,636)
Charge for the year	(48,054)	(72,567)	(14,867)	–	(135,488)
Disposals	–	14,301	6,290	–	20,591
At 31 December 2016	(390,505)	(360,983)	(93,045)	–	(844,533)
Net book value					
At 31 December 2016	1,227,993	432,587	60,598	1,324,523	3,045,701

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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

21 DEFERRED INCOME TAXES

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

	30 June 2017		31 December 2016	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	4,928,808	19,715,230	3,977,208	15,908,832
Staff salary and welfare payable	738,665	2,954,659	521,916	2,087,664
Fair value changes of financial instruments at fair value through profit or loss	184,980	739,921	161,706	646,824
Fair value changes of financial assets available for sale	307,725	1,230,900	100,159	400,636
Others	5,276	21,103	3,474	13,896
Subtotal	6,165,454	24,661,813	4,764,463	19,057,852
Deferred income tax liabilities:				
Fair value changes of derivative instruments	(120,554)	(482,215)	(163,437)	(653,748)
Subtotal	(120,554)	(482,215)	(163,437)	(653,748)

The net deferred income tax assets recognized are as follows:

	30 June 2017	31 December 2016
Net deferred income tax	6,044,900	4,601,026

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

21 DEFERRED INCOME TAXES *(continued)*

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

	30 June 2017	31 December 2016
At beginning of the period/year	4,601,026	2,105,271
Charged to profit or loss	1,236,308	2,076,113
Charged to other comprehensive income		
– Fair value changes of financial assets available for sale	207,566	419,642
At end of the period/year	6,044,900	4,601,026

22 OTHER ASSETS

	30 June 2017	31 December 2016
Interest receivable (i)	5,133,973	4,890,326
Intangible assets (ii)	744,630	639,848
Other receivables	993,097	1,731,477
Less: impairment allowance	(35,989)	(35,413)
Prepaid land, building and deposit	1,536,216	591,812
Prepaid improvements and equipment	347,189	116,989
Long-term prepaid expenses	315,724	332,221
Guaranteed deposits paid	470,999	199,183
Funds to be settled	1,348,433	14,610
Finance lease receivables	5,377,084	–
Others	739,951	445,940
Total	16,971,307	8,926,993

(i) Interest receivable

	30 June 2017	31 December 2016
Financial investments and financial assets at fair value through profit or loss	3,656,873	3,510,495
Loans and advances to customers	1,293,044	1,168,425
Due from other banks and central bank	156,942	211,406
Other	27,114	–
Total	5,133,973	4,890,326

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

22 OTHER ASSETS (continued)

(ii) Intangible assets

	Land use rights	Computer software	Total
Cost			
31 December 2016	528,783	314,597	843,380
Additions	104,511	23,602	128,113
30 June 2017	633,294	338,199	971,493
Accumulated amortization			
31 December 2016	(66,782)	(136,750)	(203,532)
Amortization for the period	(7,917)	(15,414)	(23,331)
30 June 2017	(74,699)	(152,164)	(226,863)
Net book value			
30 June 2017	558,595	186,035	744,630
Cost			
31 December 2015	437,162	270,735	707,897
Additions	91,621	43,862	135,483
31 December 2016	528,783	314,597	843,380
Accumulated amortization			
31 December 2016	(54,659)	(109,909)	(164,568)
Amortization for the year	(12,123)	(26,841)	(38,964)
31 December 2016	(66,782)	(136,750)	(203,532)
Net book value			
31 December 2016	462,001	177,847	639,848

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

22 OTHER ASSETS (continued)

(ii) Intangible assets (continued)

The net book value of land use rights is analyzed based on the remaining terms of the leases as follows:

	30 June 2017	31 December 2016
Held outside Hong Kong – on medium-term lease (10-50 years)	558,595	462,001

23 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Deposits from banks and other financial institutions	311,756,497	357,404,602
Placements from banks and other financial institutions	29,025,345	19,352,840
Securities sold under repurchase agreements	15,444,405	15,258,399
Notes sold under repurchase agreements	2,798,483	2,092,980
Total	359,024,730	394,108,821

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017	31 December 2016
Financial liabilities related to precious metal contracts	2,921,891	13,846,049
Short sell of borrowed securities	229,810	29,560
Total	3,151,701	13,875,609

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

25 CUSTOMER DEPOSITS

	30 June 2017	31 December 2016
Corporate demand deposits	295,586,549	256,737,966
Corporate time deposits	447,114,704	443,686,661
Individual demand deposits	14,475,197	7,501,155
Individual time deposits	39,055,061	26,046,656
Other deposits	6,836,024	2,271,260
Total	803,067,535	736,243,698
Including: Pledged deposits held as collateral	88,227,831	96,140,392

26 DEBT SECURITIES ISSUED

	30 June 2017	31 December 2016
Fixed rate financial bonds – 2018 (i)	1,500,000	1,500,000
Fixed rate financial bonds – 2019 (ii)	4,500,000	4,500,000
Fixed rate financial bonds – 2020 (iii)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (iv)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2026 (v)	10,000,000	10,000,000
Inter-bank certificates of deposit	137,145,972	83,595,250
Total	168,145,972	114,595,250

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

26 DEBT SECURITIES ISSUED (continued)

- (i) Fixed-rate financial bond of RMB1.5 billion was issued at 11 September 2013, with a maturity of 5 years and a fixed coupon rate of 5.00% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (ii) Fixed-rate financial bond of RMB4.5 billion was issued at 10 March 2014, with a maturity of 5 years and a fixed coupon rate of 5.70% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iii) Fixed-rate financial bond of RMB5 billion was issued at 24 December 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iv) Fixed-rate financial bond of RMB10 billion was issued at 24 February 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (v) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued at 14 September 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at face value at the year end of 2021.

As of 30 June 2017, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or inter-bank certificates of deposit for the Group and the Bank.

27 OTHER LIABILITIES

	30 June 2017	31 December 2016
Interest payable (i)	12,604,998	12,260,436
Salary and welfare payable (ii)	4,379,977	4,643,722
Tax payables (iii)	567,720	134,889
Dividends payable	3,061,626	15,311
Others payable	1,296,614	–
Settlement fund	5,558,064	3,611,447
Promissory notes and certified cheques issued	3,932	696,988
Deferred income	156,782	12,340
Others	1,077,766	493,745
Total	28,707,479	21,868,878

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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27 OTHER LIABILITIES *(continued)*

(i) Interest payable

	30 June 2017	31 December 2016
Customer deposits	9,272,735	9,113,358
Due to banks and other financial institutions	2,332,402	2,221,805
Debt securities issued	999,861	925,273
Total	12,604,998	12,260,436

(ii) Salary and welfare payable

	30 June 2017	31 December 2016
Salary, bonus, and allowance	4,319,849	4,570,584
Labor union fee and staff education expenses	59,564	73,138
Other	564	–
Total	4,379,977	4,643,722

(iii) Tax payable

	30 June 2017	31 December 2016
Value-added tax payable	439,239	59,319
Other	128,481	75,570
Total	567,720	134,889

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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28 SHARE CAPITAL AND CAPITAL RESERVE

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

	30 June 2017	31 December 2016
Number of shares authorized, issued and fully paid at par value (in thousands) (i)	17,959,697	17,959,697

- (i) At 30 March 2016, the Bank were listed on the Hong Kong Stock Exchange, and fully exercised of the Over-Allotment Option on 19 April 2016. The total number of H shares issued globally was 3,795,000,000 (including 3,450,000,000 new H shares and 345,000,000 shares sold by selling shareholders). The offering price was HK\$3.96 per share, each share at the par value of RMB1.00.

As of 30 June 2017, the Bank's capital reserve is shown as follows:

	30 June 2017	31 December 2016
Share premium (ii)	19,974,808	19,990,020

- (ii) The Bank recognized the share premium after deducting direct issuing costs (including underwriting fees and some other professional agency fees) as capital reserve.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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

29 OTHER EQUITY INSTRUMENTS

(a) List of preference shares issued

Equity instruments in issue	Issue date	Dividend rate	Original issuance price per share (USD)	Number	Total (USD in thousands)	Total (RMB in thousands)	Maturity date	Conversion condition
Offshore preference shares	29 March 2017	The initial annual dividend rate is 5.45% and is subsequently subject to reset per agreement	20	108,750,000	2,175,000	14,989,013	No maturity date	No conversion during the period
					Minus: Issuance fee	(31,349)		
					Book value	14,957,664		

(b) Movement of preference shares issued

	31 December			30 June
	2016	Addition	Reduction	2017
Number (share)	–	108,750,000	–	108,750,000
Total (RMB in thousands)	–	14,957,664	–	14,957,664

(c) Main terms of preference shares

(i) Dividend

- 1) from and including the issue date to but excluding the first reset date, at the rate of 5.45% per annum; and
- 2) thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate.

The dividend for offshore preference shares is non-cumulative.

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

29 OTHER EQUITY INSTRUMENTS *(continued)*

(c) Main terms of preference shares *(continued)*

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and making statutory general provisions, and the Bank's capital adequacy ratio meets regulatory requirements.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due.

Under the circumstances where the Bank cancels a dividend in whole or in part, in accordance with such shareholder resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

(iii) Conversion

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- 1) cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- 2) irrevocably and compulsorily convert with effect from the conversion date all or some of the offshore preference shares into such number of H shares as is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD\$1.00 to HK\$7.7544) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares, and any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The "trigger event" refers to an additional tier one capital instrument trigger event or a non-viability trigger event, as the case may be. The "additional tier one capital instrument trigger event" refers to the occasion where the Bank's core tier one capital adequacy ratio of the Bank has fallen to 5.125% or below. The "non-viability trigger event" is defined as the earlier of: the CBRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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29 OTHER EQUITY INSTRUMENTS *(continued)*

(c) Main terms of preference shares *(continued)*

(iv) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (a) junior to holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (b) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (c) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be *pari passu* with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

(v) Redemption

The Bank may, subject to obtaining the CBRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

(d) Information relating to the holder of the equity instrument

	30 June 2017	31 December 2016
Attributable to shareholders	84,355,390	67,475,378
Equity attribute to ordinary equity holders of the Bank	69,397,726	67,475,378
Equity attribute to other equity holders of the Bank	14,957,664	–
Attributable to non-controlling interest	1,458,812	–

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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30 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at 1 January 2017	3,790,406	13,242,456
Appropriation	–	4,001,274
Balance at 30 June 2017	3,790,406	17,243,730
Balance at 1 January 2016	2,775,091	8,241,258
Appropriation	1,015,315	–
Appropriation	–	5,001,198
Balance at 31 December 2016	3,790,406	13,242,456

(i) Surplus reserve

Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.

(ii) Statutory general reserve

Pursuant to Caijin [2012] No. 20 'Requirements on Impairment Allowance for Financial Institutions'(the 'Requirement'), effective on 1 July 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve is treated as profit distribution and is an integral part of shareholders' equity, which should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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31 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2017	(400,637)	100,159	(300,478)
Fair value changes in available-for-sale	(752,536)	188,134	(564,402)
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(77,727)	19,432	(58,295)
Balance at 30 June 2017	(1,230,900)	307,725	(923,175)
Balance at 1 January 2016	1,277,931	(319,483)	958,448
Fair value changes in available-for-sale	(1,341,006)	335,251	(1,005,755)
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(337,562)	84,391	(253,171)
Balance at 31 December 2016	(400,637)	100,159	(300,478)

32 DIVIDENDS

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:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the 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 lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

As approved by shareholders in the General Meeting on 31 May 2017, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, totalling RMB3,053,148 thousand.

For the six months ended 30 June 2017
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33 UNCONSOLIDATED STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are wealth management products sponsored and managed by the Group acting as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Group receives commission income as the manager of these wealth management products. The Group considered its variable returns from its involvement with the structured entities are insignificant and hence it does not consolidate these structured entities.

The wealth management products sponsored and managed by the Group were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Group sets admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc. As of 30 June 2017 and 31 December 2016, there is no objective evidence of impairment for these investments.

As of 30 June 2017, the balance of unconsolidated wealth management products sponsored and managed by the Group in terms of size amounted to RMB408,884 million (31 December 2016: RMB429,106 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which amount is insignificant.

During the six months ended 30 June 2017 and the year ended 31 December 2016, the Group did not provide financial or other support to these structured entities. The Group did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entities in obtaining financial support.

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33 UNCONSOLIDATED STRUCTURED ENTITIES *(continued)*

(b) Unconsolidated structured entities invested by the Group

As of 30 June 2017, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

During the six months ended 30 June 2017, the Group did not provide financial or other support to these structured entities.

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

	Carrying value	Maximum exposure to loss
At 30 June 2017		
Financial assets at fair value through profit or loss		
– Trust and asset management plans	2,584,681	2,584,681
– Fund investments	36,612,146	36,612,146
Available for sale financial assets		
– Trust and asset management plans	2,543,950	2,543,950
– Fund investments	15,103,736	15,103,736
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	10,464,350	10,464,350
– Trust plans and asset management plans sponsored by other financial institutions	483,808,106	485,509,385
At 31 December 2016		
Financial assets at fair value through profit or loss		
– Trust and asset management plans	2,600,554	2,600,554
Available for sale financial assets		
– Trust and asset management plans	3,840,382	3,840,382
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	20,093,570	20,093,570
– Trust plans and asset management plans sponsored by other financial institutions	520,010,269	521,006,432

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

34 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and other credit commitments

	30 June 2017	31 December 2016
Acceptances	173,704,046	164,360,672
Letters of credit issued	107,522,149	128,676,586
Letters of guarantee issued	41,232,064	43,601,377
– Letters of financial guarantee	31,964,969	33,424,868
– Letters of non-financial guarantee	8,847,392	9,939,014
– Letters of guarantee	419,703	237,495
Loan commitments	1,229,232	3,061,032
Unused credit card limit	15,788,839	11,177,797
Total	339,476,330	350,877,464

(b) Capital commitments

	30 June 2017	31 December 2016
Authorized but not contracted	3,834,441	2,810,696
Contracted but not yet incurred	898,471	1,084,160
Total	4,732,912	3,894,856

(c) Operating leasing commitment

The future minimum lease payments under irrevocable rental contract are listed as follows:

	30 June 2017	31 December 2016
Within one year	590,775	477,992
Between one year and five years	1,846,099	1,494,106
More than five years	1,075,062	834,143
Total	3,511,936	2,806,241

(d) Legal proceedings

As of 30 June 2017 and 31 December 2016, the management of the Group believes the legal proceedings initiated against the Group does not have material impact on the Group's financial position or operations.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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35 ASSETS PLEDGED

	30 June 2017	31 December 2016
Bonds	42,464,374	32,588,407
Bills	2,809,948	2,100,808
Total	45,274,322	34,689,215

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, securities lending, medium-term lending facility.

36 CREDIT RISK-WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	30 June 2017	31 December 2016
Financial guarantees and credit related commitments	93,642,083	90,666,765

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

37 CASH AND CASH EQUIVALENTS

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 2017	31 December 2016
Cash	344,589	309,803
Surplus deposit reserve with central bank	23,884,580	17,600,970
Deposits and placements with banks and other financial institutions	20,449,501	32,266,553
Total	44,678,670	50,177,326

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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38 RELATED PARTY TRANSACTIONS

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

(a) Transactions with main related party

Name of Shareholders	Shareholding Ratio (%)	
	30 June 2017	31 December 2016
Zhejiang Provincial Financial Holdings Co., Ltd.	14.79	14.79

As at 30 June 2017, Zhejiang Provincial Financial Holdings Co., Ltd. ('ZJFH')'s balance of deposits with the Group was RMB2,361,000 thousand (31 December 2016: RMB4,617,999 thousand). For the six months ended 30 June 2017, the amount of interest expense for ZJFH's deposit with the Group was RMB3,184 thousand (for the six months ended 30 June 2016:RMB3,120 thousand).

(b) Transactions with other main related parties

- (i) Balance and relevant interest rate spectrum of transactions with other shareholders who have influence over financial and operating policies of the Group are as follows:

	30 June 2017	31 December 2016
Customer deposits	925,631	3,905,663
Loans and advances to customers	873,240	776,260
Acceptances	431,400	148,173
Domestic letter of credit	188,000	48,000
Letters of guarantee	–	5,000

	30 June 2017	31 December 2016
Loans and advances to customers	4.35%-7.00%	4.35%-5.34%
Customer deposits	0.35%-1.95%	0.35%-1.95%

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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38 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other main related parties *(continued)*

- (ii) Transactions with other shareholders who have influence over financial and operating policies of the Group during the year are as follows:

	For the six months ended 30 June	
	2017	2016
Interest income	29,757	29,943
Interest expense	78,665	241,109
Fee and commission income	11,216	333

- (iii) The amounts and relevant interest rate spectrum of transactions with the Bank's directors, supervisors and senior management and their family members are as follows:

	30 June	31 December
	2017	2016
Customer deposits	11,392	4,984
Rate of customer deposits	0.35%-4.25%	0.35%-5.10%

	For the six months ended 30 June	
	2017	2016
Interest expense	52	1

(c) Government related entities

The transactions between the Group and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended 30 June 2017 and the years ended 31 December 2016, the Group had no material banking transactions with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended 30 June	
	2017	2016
Fees	900	1,000
Salaries and allowances and benefits	6,048	5,880
Discretionary Bonuses	28,007	21,693
Contribution to pension	770	114
Total	35,725	28,687

39 SEGMENT REPORTING

(a) Business segments

The Group manages its operations from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc.
- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.
- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.
- Others – Others comprise components of the Group that are not attributable to any of the above segments and the subsidiaries relevant business.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	For the six months ended 30 June 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	13,275,599	2,949,399	13,767,057	78,730	30,070,785
External interest expense	(6,868,394)	(411,306)	(10,397,376)	(9,092)	(17,686,168)
Inter-segment net interest income/(expenses)	1,555,648	(812,041)	(740,659)	(2,948)	–
Net interest income	7,962,853	1,726,052	2,629,022	66,690	12,384,617
Net fee and commission income	821,136	97,233	4,149,423	21,956	5,089,748
Net trading gains	–	–	(222,200)	–	(222,200)
Net gains on financial investments	383,066	–	164,226	–	547,292
Other operating income	446	20,168	101,020	27,690	149,324
Operating income	9,167,501	1,843,453	6,821,491	116,336	17,948,781
Operating expenses	(3,011,553)	(732,817)	(1,619,722)	(67,268)	(5,431,360)
– Depreciation and amortization	(72,897)	(13,791)	(56,998)	(1,295)	(144,981)
Impairment losses on assets	(2,230,981)	(681,404)	(2,240,379)	(54,314)	(5,207,078)
Profit before income tax	3,924,967	429,232	2,961,390	(5,246)	7,310,343
Capital expenditure	409,363	71,922	415,229	6,722	903,236
	30 June 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	655,918,158	115,239,987	665,316,196	10,771,053	1,447,245,394
Unallocated assets	–	–	–	–	6,044,900
Total assets	–	–	–	–	1,453,290,294
Segment liabilities	(761,935,939)	(54,772,020)	(539,743,405)	(11,024,728)	(1,367,476,092)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	For the six months ended 30 June 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	12,074,921	2,134,837	12,453,711	-	26,663,469
External interest expense	(5,997,329)	(200,369)	(8,503,935)	-	(14,701,633)
Inter-segment net interest income/(expenses)	631,686	(628,222)	(3,464)	-	-
Net interest income	6,709,278	1,306,246	3,946,312	-	11,961,836
Net fee and commission income	833,297	27,309	2,346,047	-	3,206,653
Net trading gains	-	-	192,450	-	192,450
Net gains on financial investments	250,682	-	333,548	-	584,230
Other operating income	172	1,473	-	17,561	19,206
Operating income	7,793,429	1,335,028	6,818,357	17,561	15,964,375
Operating expenses	(2,583,372)	(475,704)	(1,523,921)	(6,096)	(4,589,093)
– Depreciation and amortization	(55,492)	(8,967)	(49,388)	(38)	(113,885)
Impairment losses on assets	(4,674,090)	(455,208)	-	-	(5,129,298)
Profit before income tax	535,967	404,116	5,294,436	11,465	6,245,984
Capital expenditure	69,667	9,513	70,122	261	149,563
	31 December 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	615,137,846	91,756,149	640,319,661	3,039,837	1,350,253,493
Unallocated assets	-	-	-	-	4,601,026
Total assets	-	-	-	-	1,354,854,519
Segment liabilities	(715,326,617)	(34,582,561)	(533,326,820)	(4,143,143)	(1,287,379,141)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT REPORTING *(continued)*

(b) Geographical segments

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

- 'Yangtze River Delta region' refers to the head office and the following areas serviced by the tier-one branches of the Bank: Head Office, Zheyin Financial Leasing, Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan;
- 'Bohai Rim region' refers to the following areas serviced by the tier-one branches of the Bank: Beijing, Tianjin, Jinan, Shenyang;
- 'Pearl River Delta region' refers to the following areas serviced by the tier-one branches of the Bank: Shenzhen, Guangzhou; and
- 'Midwestern China' refers to the following areas serviced by the tier-one branches of the Bank: Chengdu, Xi'an, Lanzhou, Chongqing, Wuhan, Zhengzhou.

	For the six months ended 30 June 2017					Total
	Yangtze River	Bohai Rim	Pearl River	Midwestern China	Elimination	
External interest income	18,677,818	4,985,531	1,850,579	4,556,857	–	30,070,785
External interest expense	(11,639,338)	(2,616,756)	(1,223,177)	(2,206,897)	–	(17,686,168)
Inter-segment net interest income/ (expenses)	493,002	(377,547)	24,160	(139,615)	–	–
Net interest income	7,531,482	1,991,228	651,562	2,210,345	–	12,384,617
Net fee and commission income	4,803,465	178,847	46,774	60,662	–	5,089,748
Net trading gains	(257,775)	(192)	29,594	6,173	–	(222,200)
Net gains on financial investments	353,209	(25,664)	67,672	152,075	–	547,292
Other operating income	55,329	16,531	3,428	74,036	–	149,324
Operating income	12,485,710	2,160,750	799,030	2,503,291	–	17,948,781
Operating expenses	(3,706,281)	(782,613)	(252,243)	(690,223)	–	(5,431,360)
– Depreciation and amortization	(106,336)	(16,372)	(3,297)	(18,976)	–	(144,981)
Impairment losses on assets	(3,064,476)	(711,723)	(381,094)	(1,049,785)	–	(5,207,078)
Profit before income tax	5,714,953	666,414	165,693	763,283	–	7,310,343
Capital expenditure	745,919	121,459	7,760	28,098	–	903,236

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	30 June 2017					Total
	Yangtze River	Bohai Rim	Pearl River	Midwestern China	Elimination	
Segment assets	1,396,804,092	267,448,796	122,296,903	261,797,605	(601,102,002)	1,447,245,394
Unallocated assets	-	-	-	-	-	6,044,900
Total assets	-	-	-	-	-	1,453,290,294
Segment liabilities	(1,319,709,462)	(266,175,030)	(122,080,937)	(260,612,665)	601,102,002	(1,367,476,092)

	For the six months ended 30 June 2016					
	Yangtze River	Bohai Rim	Pearl River	Midwestern China	Elimination	Total
External interest income	16,641,065	4,768,412	1,204,278	4,049,714	-	26,663,469
External interest expense	(9,480,628)	(2,837,638)	(689,292)	(1,694,075)	-	(14,701,633)
Inter-segment net interest income/ (expenses)	350,369	87,481	76,020	(513,870)	-	-
Net interest income	7,510,806	2,018,255	591,006	1,841,769	-	11,961,836
Net fee and commission income	2,907,063	149,747	67,046	82,797	-	3,206,653
Net trading gains	192,450	-	-	-	-	192,450
Net gains on financial investments	382,998	153,913	41,158	6,161	-	584,230
Other operating income	14,319	3,647	188	1,052	-	19,206
Operating income	11,007,636	2,325,562	699,398	1,931,779	-	15,964,375
Operating expenses	(3,114,545)	(686,145)	(214,874)	(573,529)	-	(4,589,093)
– Depreciation and amortization	(86,881)	(14,074)	(3,002)	(9,928)	-	(113,885)
Impairment losses on assets	(2,614,818)	(1,183,457)	(77,386)	(1,253,637)	-	(5,129,298)
Profit before income tax	5,278,273	455,960	407,138	104,613	-	6,245,984
Capital expenditure	83,615	344	1,684	63,920	-	149,563

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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39 SEGMENT REPORTING *(continued)*

(b) Geographical segments *(continued)*

	31 December 2016					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
Segment assets	1,300,381,130	275,332,329	99,138,703	217,967,292	(542,565,961)	1,350,253,493
Unallocated assets	-	-	-	-	-	4,601,026
Total assets	-	-	-	-	-	1,354,854,519
Segment liabilities	(1,241,584,216)	(273,819,160)	(98,814,535)	(215,727,191)	542,565,961	(1,287,379,141)

40 UNSECURED WEALTH MANAGEMENT PRODUCTS

The Group issues and manages unsecured wealth management products to institutional and individual investors. The funds raised from the institutional and individual investors are mainly invested in the open market bonds, trust plans and directional asset management plans.

The Group assesses its control on the unsecured wealth management products. The Group 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 and the performance of targeted asset management plans. The risk of loss is borne by the investors. The Group earns the net fee and commission income from the products.

As at 30 June 2017, the balance of funds raised from the unsecured wealth management products were RMB408,884 million thousand (31 December 2016: RMB429,106 million thousand). The Group has recognised net fee and commission income from unsecured wealth management products with the amount of RMB2,971 million for the six months ended 30 June 2017 through provision of asset management service.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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41 FINANCIAL RISK MANAGEMENT

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

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

The Board of Directors is responsible for establishing the overall risk appetite of the Group, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Group is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

The condensed interim consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016. There have been no changes in the risk management policies since year end.

42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in inter-bank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables, due to Bank and other financial institutions, customer deposits and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, including financial investments-held-to-maturity, financial investments-debt instruments classified as receivables and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

	Carrying value	30 June 2017			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity (i)	52,695,158	–	51,639,921	–	51,639,921
Financial investments					
– Debt instruments classified as receivables (i)	489,244,675	–	360,695,113	128,979,745	489,674,858
Total	541,939,833	–	412,335,034	128,979,745	541,314,779
Financial liabilities					
Debt securities issued (ii)	(168,145,972)	–	(165,447,849)	–	(165,447,849)

	Carrying value	31 December 2016			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity (i)	41,532,932	–	41,537,769	–	41,537,769
Financial investments					
– Debt instruments classified as receivables (i)	537,036,109	–	442,442,602	96,174,457	538,617,059
Total	578,569,041	–	483,980,371	96,174,457	580,154,828
Financial liabilities					
Debt securities issued (ii)	(114,595,250)	–	(115,910,000)	–	(115,910,000)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017
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42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

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

(i) **Held-to-maturity investments and debt instruments classified as receivables**

Held-to-maturity investments and debt instruments classified as receivables whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received which are based on unobservable yield curves, the fair value measurement will be included in level 3.

(ii) **Debt securities issued**

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

(c) Financial instruments measured at fair value

30 June 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	42,661,611	–	42,661,611
– Fund investment	–	36,612,146	–	36,612,146
Derivative financial assets	–	3,853,588	–	3,853,588
Financial investments – Available-for-sale				
– Debt securities	–	60,873,640	–	60,873,640
– Fund investment	–	15,103,736	–	15,103,736
– Equity investment	–	–	25,000	25,000
Total	–	159,104,721	25,000	159,129,721
Financial liabilities at fair value through profit or loss	–	(3,151,701)	–	(3,151,701)
Derivative financial liabilities	–	(3,411,427)	–	(3,411,427)
Total	–	(6,563,128)	–	(6,563,128)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

(c) Financial instruments measured at fair value *(continued)*

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	23,131,819	–	23,131,819
Derivative financial assets	–	4,780,282	–	4,780,282
Financial investments – Available-for-sale				
– Debt securities	–	61,283,045	–	61,283,045
– Inter-bank certificates of deposit	–	158,896	–	158,896
– Equity investment	–	–	25,000	25,000
Total	–	89,354,042	25,000	89,379,042
Financial liabilities at fair value through profit or loss	–	(13,875,609)	–	(13,875,609)
Derivative financial liabilities	–	(4,126,534)	–	(4,126,534)
Total	–	(18,002,143)	–	(18,002,143)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

43 FIDUCIARY ACTIVITIES

The Bank provides custody and trustee services to third parties, and grants entrusted loans on behalf of third-party lenders. They are as follows:

	30 June 2017	31 December 2016
Entrusted loans	76,745,473	74,557,069
Entrusted investments	688,110	400,000

44 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material subsequent events for disclosure after 30 June 2017.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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



1 LIQUIDITY RATIOS

	As at 30 June 2017	As at 31 December 2016
(Expressed in percentage)		
RMB current assets to RMB current liabilities	51.22	41.63
Foreign currency current assets to foreign currency current liabilities	28.36	77.80

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and China Banking Regulatory Commission ("CBRC").

2 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, international claims are the sum of cross-border claims in local claims in foreign currencies and all currencies.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, loans and advances to customers, available-for-sale financial assets.

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

	Bank	Non-bank		Total
		Official sector	private sector	
30 June 2017				
local claims in foreign currencies	6,112,838	–	48,504,539	54,617,377
Asia Pacific excluding Mainland China	67,089	53,819	2,523,635	2,644,543
– of which attributed to Hong Kong	33,553	–	2,523,635	2,557,188
Europe	77,428	–	–	77,428
North America	2,640,688	–	–	2,640,688
Oceania	17,855	–	–	17,855
Total	8,915,898	53,819	51,028,174	59,997,891

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

2 INTERNATIONAL CLAIMS *(continued)*

		Official	Non-bank private	Total
31 December 2016	Bank	sector	sector	
local claims in foreign currencies	12,705,670	–	33,357,486	46,063,156
Asia Pacific excluding Mainland China	30,961	52,750	705,582	789,293
– of which attributed to Hong Kong	8,866	–	705,582	714,448
Europe	756,930	–	–	756,930
North America	2,044,796	334,446	–	2,379,242
Oceania	20,745	–	–	20,745
Total	15,559,102	387,196	34,063,068	50,009,366

3 CURRENCY CONCENTRATIONS

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
As at 30 June 2017				
Spot assets	56,620,984	185,387	2,102,027	58,908,398
Spot liabilities	(77,432,558)	(5,618)	(1,034,368)	(78,472,544)
Forward purchases	90,172,754	163,073	21,335,380	111,671,207
Forward sales	(92,963,027)	(1,088,002)	(23,360,189)	(117,411,218)
Net options position	(71,198)	22	(2,477)	(73,653)
Net long/(short) position	(23,673,045)	(745,138)	(959,627)	(25,377,810)

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
As at 31 December 2016				
Spot assets	42,041,157	7,254,508	603,822	49,899,487
Spot liabilities	(51,185,016)	(93,081)	(1,371,665)	(52,649,762)
Forward purchases	106,794,322	–	7,398,517	114,192,839
Forward sales	(90,463,150)	–	(7,427,441)	(97,890,591)
Net options position	(60,668)	–	(285)	(60,953)
Net long/(short) position	7,126,645	7,161,427	(797,052)	13,491,020

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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



4 OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

	As at 30 June 2017		As at 31 December 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	2,156,216	28.49	1,126,320	20.42
Between 3 and 6 months	1,398,403	18.48	903,626	16.39
Between 6 and 12 months	1,527,936	20.19	1,656,422	30.03
Over 12 months	2,485,241	32.84	1,828,924	33.16
Total	7,567,796	100.00	5,515,292	100.00

(2) Overdue and rescheduled loans and advances to customers

	As at 30 June 2017	As at 31 December 2016
Total rescheduled loans and advances to customers	349,610	286,640
Including: rescheduled loans and advances to customers overdue for not more than 3 months	249,662	165,846
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.05%	0.04%

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