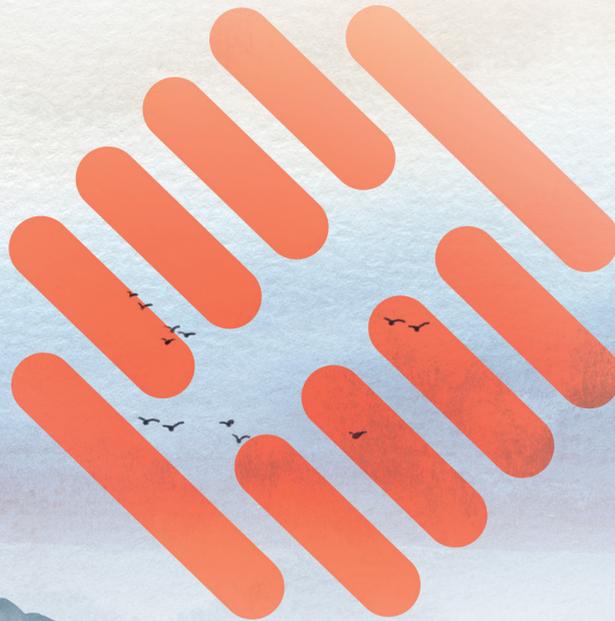


CZBANK 浙商银行

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

Stock Code: 2016

Stock Code of Preference Shares: 4610



2018
Interim Report

IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.

The second meeting of the 5th session of the Board of the Company, held on August 24, 2018, approved this interim report. The Company has 13 Directors, among which 10 Directors attended the meeting in person, and Ms. Zhang Luyun, Ms. Lou Ting and Mr. Tong Benli had authorized Mr. Xu Renyan, Ms. Gao Qinhong and Mr. Zheng Jindu 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. 8 Supervisors of the Company attended the meeting.

Approved by 2017 annual general meeting held on June 27, 2018, the Company has paid the final dividend for 2017 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 July 16, 2018. The total dividend declared was RMB3.182 billion. The Company neither declares interim dividend for 2018 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 in the event of any discrepancies in interpretations between the English and Chinese texts, the Chinese version shall prevail.

The interim financial report for 2018 of the Company is unaudited.

Shen Renkang (Chairman of the Bank), Xu Renyan (President of the Bank), Liu Long (Principal in charge of Finance) and Jing Feng (Director of the Financial Department) warrant 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 of the Company 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.



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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
“CBIRC”:	China Banking and Insurance 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 holds 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.

COMPANY PROFILE

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
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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:	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong
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5. Authorized representatives:	Xu Renyan, Liu Long
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6. Secretary to the Board:	Liu Long
Joint company secretaries:	Liu Long, Chan Yin Wah

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 17USD PREF
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

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- 9. Legal advisers:**
- As to Mainland PRC Laws:** Zhejiang T&C Law Firm
- As to Hong Kong Laws:** Freshfields Bruckhaus Deringer
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- 10. 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
-
- 11. 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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- 12. Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004
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FINANCIAL SUMMARY

(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 2018	June 2017	Increase/Decrease (%)
Operating income	18,596,060	17,948,781	3.61
Profit before income tax	7,945,718	7,310,343	8.69
Net profit attributable to shareholders of the Bank	6,485,825	5,613,405	15.54

Scale indicators (at the end of the reporting period, RMB'000)	June 30,	December 31,	Period-on-period
	2018	2017	Increase/Decrease (%)
Total assets	1,632,171,684	1,536,752,102	6.21
Total loans and advances to customers	796,029,085	672,878,934	18.30
Total liabilities	1,536,013,446	1,447,064,348	6.15
Customer deposits	905,959,253	860,619,457	5.27
Equity attributable to shareholders of the Bank	94,641,881	88,194,636	7.31

Per share (RMB)	January to	January to	Period-on-period
	June 2018	June 2017	
Basic earnings per share attributable to shareholders of the Bank	0.34	0.31	Increase by RMB0.03
Diluted earnings per share attributable to shareholders of the Bank	0.34	0.31	Increase by RMB0.03

Net assets per share at the end of the period attributable to shareholders of the Bank	June 30,	December 31,	Period-on-period
	2018	2017	
	4.26	4.08	Increase by RMB0.18

FINANCIAL SUMMARY

	January to June 2018	January to December 2017	January to June 2017	Period-on-period
Profitability indicators (%)				
Return on average total assets	0.83*	0.76	0.80*	Increase by 0.03 percentage points
Return on average equity	16.82*	14.64	16.54*	Increase by 0.28 percentage points
Net interest margin	1.88*	1.81	1.75*	Increase by 0.13 percentage points
Net interest spread	1.66*	1.62	1.57*	Increase by 0.09 percentage points
Net non-interest income to operating income	32.11	28.81	31.00	Increase by 1.11 percentage points
Cost-to-income ratio ⁽¹⁾	28.77	31.96	29.64	Decrease by 0.87 percentage points
Asset quality indicators (%)	June 30, 2018	December 31, 2017	June 30, 2017	Period-on-period
Non-performing loan ratio ⁽²⁾	1.14	1.15	1.39	Decrease by 0.01 percentage points
Allowance to non-performing loans ⁽³⁾	280.59	296.94	249.17	Decrease by 16.35 percentage points
Allowance-to-loan ratio ⁽⁴⁾	3.20	3.43	3.45	Decrease by 0.23 percentage points
Capital adequacy indicators (%)	June 30, 2018	December 31, 2017	June 30, 2017	Period-on-period
Core tier-one capital adequacy ratio	8.41	8.29	8.27	Increase by 0.12 percentage points
Tier-one capital adequacy ratio	9.97	9.96	10.05	Increase by 0.01 percentage points
Capital adequacy ratio	13.71	12.21	12.38	Increase by 1.50 percentage points

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 expected credit loss ("ECL") allowance for loans (or allowance for impairment losses on loans) divided by balance of non-performing loans.
- (4) Balance of expected credit loss ("ECL") allowance for loans (or allowance for impairment losses on loans) divided by total loans and advances to customers.

MANAGEMENT DISCUSSION AND ANALYSIS

(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 the goal to become a first-class joint-stock bank that can provide target customers with professional service, possess distinct competitive advantages in terms of innovation, risk control, service provision in the market and value creation, reach a scale matching the identity of a national joint-stock commercial bank, and provide support for sustainable development of professional abilities.

“Zhejiang’s Most Important Financial Platform” means the goal to become a representative financial group in Zhejiang featured by comprehensive functions, leading scale, good performance and sound reputation, stand at the forefront of the industry in terms of resources deployment, efficient services and model innovation and become the strategic partner of governments at all levels, financial institutions, core enterprises and a large number of business 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 strategies and rich tools, which accommodates to the highly uncertain and fast-changing market environment on its own initiative.

At the internal business level, the Bank will break through the limitation of mainly focusing on credit assets, and adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets on and off the balance sheet from time to time according to the changes in market and customer demands, 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 corporate, inter-banking, personal business and products and integrate the financial activities into the business and life of customers to optimize their balance sheets, thus enabling the Bank to obtaining competitive abilities to quickly adapting to changes in the market and customer demands, explore diversified sources of profit, and effectively offset the impacts of economic cycles and business fluctuations on our asset size and profitability, with the aim of achieving a leading growth in the industry and ultimately reaching the overall objective of “Two Most”.

Strategic Positioning: The Company will focus on innovation and cooperation, so as to realize a concentration of customers and business under the customer-centered concept. The Company will take flexible measures to respond to changes and build itself up as a comprehensive, digital and horizontal organic organization and a first-class medium-sized bank with most featured competitive strengths.

MANAGEMENT DISCUSSION AND ANALYSIS

Innovation and cooperation so as to realize a concentration of customers and business under the customer-centered concept: The Company will adhere to innovation and cooperation and the customer-centered concept, and consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the “horse racing mechanism”, thereby enhancing competitiveness across the Bank.

Taking flexible measures to respond to changes and building a comprehensive, digital and horizontal organic organization: The flexible and responsive organic organization will be formed based on business models and support systems, which will promote internal business systems and external integrated operations, achieve digital transformation linking internal and external business throughout front, middle and back offices, and build a horizontal organization with streamlined structure and intensive management pattern.

Keeping abreast of the leading standards to build a medium-sized bank with most featured competitive strengths: Keeping abreast of the industry’s highest standards, CZBank will gradually form its benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building characteristic competitive strengths.

(II) ANALYSIS OF OVERALL OPERATION PERFORMANCE

Continuing enhancement of operating efficiencies

During the reporting period, operating income of the Group amounted to RMB18.596 billion, representing an increase of RMB647 million or 3.61% on a period-on-period basis. Net profit attributable to shareholders of the Bank amounted to RMB6.486 billion, representing an increase of RMB872 million or 15.54% on a period-on-period basis.

Stable increase of business scale

As at the end of the reporting period, total assets of the Group amounted to RMB1,632.172 billion, representing an increase of RMB95.420 billion or 6.21% as compared to that at the end of last year, of which net loans and advances to customers increased by RMB120.893 billion or 18.60%; and total liabilities amounted to RMB1,536.013 billion, representing an increase of RMB88.949 billion or 6.15% as compared to that at the end of last year, of which customer deposits amounted to RMB905.959 billion, representing an increase of RMB45.340 billion or 5.27% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Maintaining sound asset quality

As at the end of the reporting period, the non-performing loan ratio of the Group was 1.14%, representing a decrease of 0.01 percentage points as compared to that at the end of last year; allowance to non-performing loans was 280.59%, representing a decrease of 16.35 percentage points as compared to that at the end of last year; the allowance-to-loan ratio was 3.20%, representing a decrease of 0.23 percentage points as compared to that at the end of last year.

Maintaining stable capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 13.71%, representing an increase of 1.50 percentage points as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 9.97%, representing an increase of 0.01 percentage points as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 8.41%, representing an increase of 0.12 percentage points as compared with that at the end of last year.

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of consolidated statement of comprehensive income

In the first half of 2018, under the guidance of the overall goal of “Two Most”, the Group insisted on serving real economy, continuing to optimize the business structure, enhancing the efficiency of each resource’s utilisation, improving the risk management capability and comprehensively pushing forward its high-quality development. In the first half of 2018, the Group achieved a net profit of RMB6.509 billion, increasing by 16.19%; the annualized average return on total assets was 0.83% and the annualized average return on equity was 16.82%. Operating income was RMB18.596 billion, increasing by 3.61%, including, among others, net interest income of RMB12.625 billion, increasing by 1.94%; net non-interest income of RMB5.971 billion, increasing by 7.32%. Operating expense was RMB5.572 billion, increasing by 2.59%; The cost-to-income ratio was 28.77%. The expected credit loss (impairment losses on assets) was RMB5.078 billion decreasing by 2.47%; the income tax expense was RMB1.437 billion, decreasing by 15.89%.

MANAGEMENT DISCUSSION AND ANALYSIS

Changes of the main items in the statement of comprehensive income

In thousands of RMB, except percentages

Item	January to June 2018	January to June 2017	Amount of increase or decrease	Growth rate (%)
Net interest income	12,624,716	12,384,617	240,099	1.94
Net non-interest income	5,971,344	5,564,164	407,180	7.32
Operating income	18,596,060	17,948,781	647,279	3.61
Less: operating expenses	5,571,866	5,431,360	140,506	2.59
Less: expected credit losses (or Impairment losses on assets)	5,078,476	5,207,078	(128,602)	(2.47)
Profit before income tax	7,945,718	7,310,343	635,375	8.69
Less: Income tax expense	1,436,654	1,708,126	(271,472)	(15.89)
Net profit	6,509,064	5,602,217	906,847	16.19
Attributable to: Shareholders of the Bank	6,485,825	5,613,405	872,420	15.54
Non-controlling interests	23,239	(11,188)	34,427	–

Net interest income

In the first half of 2018, net interest income was RMB12.625 billion, representing an increase of RMB240 million or 1.94% as compared to the same period of last year, accounting for 67.89% of operating income; interest income was RMB35.561 billion, representing an increase of RMB5.490 billion or 18.26% as compared to the same period of last year; interest expense was RMB22.936 billion, representing an increase of RMB5.250 billion or 29.68% as compared to the same period of last year. Net interest spread and net interest margin were 1.66% and 1.88%, respectively, representing an increase of 0.09 percentage points and 0.13 percentage points 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 2018			January to June 2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	755,890,515	20,047,771	5.35	529,433,600	12,783,142	4.87
Investments ⁽¹⁾	527,640,360	13,256,034	5.07	682,537,782	15,332,215	4.53
Due from banks and other financial institutions ⁽²⁾	112,979,400	1,381,323	2.47	96,544,299	1,065,863	2.23
Balances with central bank ⁽³⁾	118,277,104	875,558	1.49	122,617,546	889,565	1.46
Total interest-earning assets	1,514,787,379	35,560,686	4.73	1,431,133,227	30,070,785	4.24

MANAGEMENT DISCUSSION AND ANALYSIS

Item	January to June 2018			January to June 2017		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	851,352,103	8,852,520	2.10	746,312,543	7,121,105	1.92
Due to banks and other financial institutions ⁽⁴⁾	449,164,666	9,383,275	4.21	464,733,032	8,300,745	3.60
Debt securities issued ⁽⁵⁾	206,852,651	4,700,175	4.58	126,647,917	2,264,318	3.61
Total interest-bearing liabilities	1,507,369,420	22,935,970	3.07	1,337,693,492	17,686,168	2.67
Net interest income		12,624,716			12,384,617	
Net interest spread (%)			1.66			1.57
Net interest margin (%) ⁽⁶⁾			1.88			1.75

Notes:

- (1) Due to the adoption of new accounting standards, the investments during the period include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost, while the investments during the last period 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.
- (6) Net interest margin: the income generated from business such as monetary funds and bond funds was not classified as interest income categorised by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between January to June 2018 and January to June 2017		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Factors for increase (decrease)			
Interest-earning assets			
Loans and advances to customers	5,467,788	1,796,841	7,264,629
Investments	(3,479,544)	1,403,363	(2,076,181)
Due from banks and other financial institutions	181,446	134,014	315,460
Balances with central bank	(31,489)	17,482	(14,007)
Changes in interest income	2,138,201	3,351,700	5,489,901
Interest-bearing liabilities			
Customer deposits	1,002,258	729,157	1,731,415
Due to banks and other financial institutions	(278,072)	1,360,602	1,082,530
Debt securities issued	1,433,968	1,001,889	2,435,857
Changes in interest expense	2,158,154	3,091,648	5,249,802
Changes in net interest income	(19,953)	260,052	240,099

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB20.048 billion, representing an increase of RMB7.265 billion or 56.83% as compared to the same period of last year, mainly due to the increase in loans and advances to customers.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

	January to June 2018			January to June 2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	608,300,596	15,681,064	5.20	430,875,012	9,879,909	4.62
Personal loans and advances	147,589,919	4,366,707	5.97	98,558,588	2,903,233	5.94
Total loans and advances to customers	755,890,515	20,047,771	5.35	529,433,600	12,783,142	4.87

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB13.256 billion, decreased by RMB2.076 billion or 13.54% as compared to the same period of last year, mainly due to the decrease in the size of investment assets.

Interest income from due from banks and other financial institutions

Interest income from due from banks and other financial institutions was RMB1.381 billion, representing an increase of RMB315 million or 29.60% as compared to the same period of last year, primarily due to the increased scale of due from banks and other financial institutions.

Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB8.853 billion, representing an increase of RMB1.731 billion or 24.31% as compared to the same period of last year, primarily due to the increase in the size of customer deposits.

Interest expense on customer deposits

In thousands of RMB, except percentages

	January to June 2018			January to June 2017		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	504,468,793	6,946,742	2.78	449,183,137	5,834,458	2.62
Demand	290,253,233	1,174,502	0.82	258,396,088	875,342	0.68
Sub-total	794,722,026	8,121,244	2.06	707,579,225	6,709,800	1.91
Personal deposits						
Time	37,836,259	653,081	3.48	30,862,442	396,606	2.59
Demand	18,793,818	78,195	0.84	7,870,876	14,699	0.38
Sub-total	56,630,077	731,276	2.60	38,733,318	411,305	2.14
Total	851,352,103	8,852,520	2.10	746,312,543	7,121,105	1.92

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

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB9.383 billion, representing an increase of RMB1.083 billion or 13.04% as compared to the same period of last year, primarily due to the increase in average cost of due to banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest expense on debt securities issued

Interest expense on debt securities issued amounted to RMB4.700 billion, representing an increase of RMB2.436 billion or 107.58% as compared to the same period of last year, primarily due to the increase in the size of debt securities issued and average cost.

Net non-interest income

Net non-interest income in the first half of 2018 amounted to RMB5.971 billion, representing an increase of RMB407 million or 7.32% as compared to the same period of last year. Among which, the net fee and commission income was RMB2.338 billion, representing a decrease of RMB2.752 billion as compared to the same period of last year, while other net non-interest income was RMB3.633 billion, representing an increase of RMB3.159 billion as compared to the same period of last year.

Net fee and commission income

In thousands of RMB, except percentages

Item	January to June 2018	January to June 2017	Amount of increase or decrease	Growth rate (%)
Asset Management Services	862,239	3,913,577	(3,051,338)	(77.97)
Settlement business	407,016	183,428	223,588	121.89
Underwriting service	392,647	246,103	146,544	59.55
Custodian and other fiduciary service	285,522	219,292	66,230	30.20
Credit commitment	247,040	223,215	23,825	10.67
Agency service	207,239	178,828	28,411	15.89
Others	192,079	274,023	(81,944)	(29.90)
Fee and commission income	2,593,782	5,238,466	(2,644,684)	(50.49)
Less: Fee and commission expense	255,834	148,718	107,116	72.03
Net fee and commission income	2,337,948	5,089,748	(2,751,800)	(54.07)

MANAGEMENT DISCUSSION AND ANALYSIS

Fee income from asset management service was RMB862 million, representing a decrease of RMB3.051 billion as compared to the same period of last year, primarily due to the decrease in the scale of wealth management and average yield for the period.

Fee income from settlement business was RMB407 million, representing an increase of RMB224 million as compared to the same period of last year, primarily due to the growth of our settlement and clearing business.

Fee income from underwriting service was RMB393 million, representing an increase of RMB147 million as compared to the same period of last year, primarily due to the increased scale of the bond underwriting business.

Fee income from custodian and other fiduciary service was RMB286 million, representing an increase of RMB66 million as compared to the same period of last year, primarily due to the increased scale of the asset custodian business.

Other net non-interest income

In thousands of RMB, except percentages

Item	January to June 2018	January to June 2017	Amount of increase or decrease	Growth rate (%)
Net trading gains/(losses)	2,768,779	(222,200)	2,990,979	–
Net gains on financial investments	575,164	547,292	27,872	5.09
Other operating income	289,453	149,324	140,129	93.84
Total	3,633,396	474,416	3,158,980	665.87

Other net non-interest income was RMB3.633 billion, representing an increase of RMB3.159 billion as compared to the same period of last year, primarily due to the increased net gains on trading activities arising from the active investment in bonds and public offering fund during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses

In thousands of RMB, except percentages

Item	January to June 2018	January to June 2017	Amount of increase or decrease	Growth Rate (%)
Staff costs	3,472,983	3,564,002	(91,019)	(2.55)
General and administrative expenses	1,191,498	1,345,559	(154,061)	(11.45)
Tax and surcharges	222,358	112,114	110,244	98.33
Rental expenses	343,370	256,497	86,873	33.87
Depreciation and amortization	321,102	144,981	176,121	121.48
Others	20,555	8,207	12,348	150.46
Total	5,571,866	5,431,360	140,506	2.59

Expected credit losses

In thousands of RMB

Item	January to June 2018	January to June 2017
Loans and advances to customers	4,955,337	N/A
financial assets at fair value through other comprehensive income	(51,816)	N/A
financial assets measured at amortized cost	(66,809)	N/A
loan commitments and financial guarantee contracts	56,925	N/A
Finance lease receivables	175,266	N/A
Others	9,573	N/A
Total	5,078,476	N/A

Impairment Losses On Assets

In thousands of RMB

Item	January to June 2018	January to June 2017
Loans and advances to customers		
– Collectively assessed	N/A	2,121,313
– Individually assessed	N/A	995,728
Debt instruments classified as receivables	N/A	2,020,051
Others	–	69,986
Total	–	5,207,078

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (“IASB”) in July 2014 with a date of transition of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expense

The income tax expenses were RMB1.437 billion, representing a period-on-period decrease of RMB271 million or 15.89%, and the effective tax rate was 18.08%. 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 Information – 12 Income Tax Expense”.

Segment operating results by business line

In thousands of RMB, except percentages

Item	January to June 2018		January to June 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	11,539,274	62.05	9,167,501	51.08
Retail banking	2,265,813	12.18	1,843,453	10.27
Treasury business	4,403,038	23.68	6,821,491	38.01
Others	387,935	2.09	116,336	0.64
Total operating income	18,596,060	100.00	17,948,781	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	January to June 2018		January to June 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Yangtze River Delta region	10,718,852	57.64	11,583,647	64.54
Bohai Rim region	3,071,833	16.52	2,460,275	13.71
Pearl River Delta region	1,495,587	8.04	1,030,068	5.74
Midwestern China	3,309,788	17.80	2,874,791	16.01
Total operating income	18,596,060	100.00	17,948,781	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

2. Analysis on Statement of Financial Position

In the first half of 2018, facing the complicated economic and financial situations, the Bank further accelerated the transformation development and served the real economy. The Bank actively adjusted the operational strategy, strived to improve the business structure and optimized the regional development layout. The Bank attached importance to deposit organization and management and optimizing term structures of liabilities. Our business transformation was successful, business structure was continuously optimized, stability of core liabilities was enhanced, 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 RMB1,632.172 billion, representing an increase of RMB95.420 billion or 6.21% as compared to that at the end of last year, including an increase in net loans and advances to customers of RMB120.893 billion or 18.60% and a decrease in investments of RMB22.789 billion or 3.74%. In terms of the structure, net loans and advances to customers accounted for 47.22% of total assets, investments accounted for 35.92%, and cash and balances with central bank accounted for 8.07%.

Assets utilization

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	796,029,085		672,878,934	
Changes in fair value through other comprehensive income	142,860		N/A	
Less: the expected credit loss ("ECL") allowance for loans (or allowance for impairment losses on loans)	(25,462,314)		(23,062,217)	
Net loans and advances	770,709,631	47.22	649,816,717	42.29
Investments ⁽¹⁾	586,239,893	35.92	609,029,046	39.63
Cash and balances with central bank	131,697,079	8.07	154,091,440	10.03
Precious metal	7,068,173	0.43	12,382,513	0.81
Due from banks and other financial institutions	84,029,429	5.15	71,432,438	4.65
Others	52,427,479	3.21	39,999,948	2.60
Total assets	1,632,171,684	100.00	1,536,752,102	100.00

Note:

- (1) The investment at the end of the period includes financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost. The investment at the end of last year includes financial assets at fair value through profit or loss, financial assets-for-sale, financial assets-held-to-maturity and financial assets-debt instruments classified as receivables.

Loans

In the first half of 2018, the Bank, according to changes in the macroeconomic environment and financial supervision requirements, reasonably controlled the volume, direction and pace of credit extension. Centered on serving the real economy and the supply-side structural reform, the Bank continuously optimized credit structure, deepened financial services to small and micro enterprises, actively developed inclusive finance, 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 RMB796.029 billion, representing an increase of RMB123.150 billion or 18.30% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	590,403,857	74.17	518,596,693	77.07
Discounted bills	40,828,960	5.13	20,349,584	3.02
Personal loans	164,796,268	20.70	133,932,657	19.90
Total	796,029,085	100.00	672,878,934	100.00

Corporate loans

Taking full advantage of its liquidity services, 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 RMB590.404 billion, representing an increase of 13.85% as compared to that at the end of last year.

Discounted bills

The Bank flexibly regulated and controlled its discounted bills business with low risk and low consumption of capital according to the progress of loan extension, and took various measures including optimization of structure and acceleration of turnover to improve comprehensive returns on bill assets. As at the end of the reporting period, total discounted bills amounted to RMB40.829 billion, representing an increase of 100.64% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Personal loans

The Bank optimized its asset structure and continued to promote the steady growth of personal loans, and took into account the market demand and risk management and control. As at the end of the reporting period, total personal loans amounted to RMB164.796 billion, representing an increase of 23.04% as compared to that at the end of last year.

Investments

In the first half of 2018, the Bank strongly supported the development of real economy, optimized investment portfolio and structure and, on the basis of ensuring liquidity and risk control, reasonably controlled our investment scale and constantly improved profitability level of investment portfolios. As at the end of the reporting period, total investments amounted to RMB586.240 billion, representing a decrease of 3.74% as compared to that at the end of last year.

Investment composition

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	134,500,154	22.94	46,344,516	7.61
Financial assets at fair value through other comprehensive income	50,770,445	8.66	N/A	–
Financial assets measured at amortized cost	400,969,294	68.40	N/A	–
Available-for-sale financial assets	N/A	–	127,898,959	21.00
Held-to-maturity investments	N/A	–	91,562,790	15.03
Investments classified as receivables	N/A	–	343,222,781	56.36
Total	586,239,893	100.00	609,029,046	100.00

As at the end of the reporting period, financial assets at fair value through profit or loss of the Bank amounted to RMB134.500 billion; financial assets at fair value through other comprehensive income amounted to RMB50.770 billion; financial assets at amortized cost amounted to RMB400.969 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB1,536.013 billion, representing an increase of RMB88.949 billion or 6.15% as compared to that at the end of last year.

Liabilities Composition

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	905,959,253	58.98	860,619,457	59.47
Due to banks and other financial Institutions	360,571,545	23.48	356,805,618	24.66
Financial liabilities at fair value through profit or loss	5,594,407	0.36	5,615,590	0.39
Debt securities issued	217,716,561	14.17	190,551,983	13.17
Others	46,171,680	3.01	33,471,700	2.31
Total liabilities	1,536,013,446	100.00	1,447,064,348	100.00

Customer deposits

The Bank attached importance to deposit organization and management, actively responded to the changes of market demands, took full advantage of the comprehensive financial services, raised the debt stability, strengthened the management of financing channels, improved the diversification of financing sources and further optimized financing structures.

MANAGEMENT DISCUSSION AND ANALYSIS

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	284,312,569	31.38	290,752,765	33.78
Time	523,759,857	57.81	511,302,211	59.41
Sub-total	808,072,426	89.19	802,054,976	93.20
Personal deposits				
Demand	50,263,266	5.55	21,166,325	2.46
Time	40,935,681	4.52	34,521,564	4.01
Sub-total	91,198,947	10.07	55,687,889	6.47
Other deposits	6,687,880	0.74	2,876,592	0.33
Total	905,959,253	100.00	860,619,457	100.00

As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB905.959 billion, representing an increase of RMB45.340 billion or 5.27% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by 6.017 billion or 0.75%; and personal deposits increased by RMB35.511 billion or 63.77%. With respect to term structures, time deposits increased by RMB18.872 billion or 3.46%; and demand deposits increased by RMB22.657 billion or 7.26%.

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB94.642 billion in total, representing an increase of RMB6.447 billion or 7.31% as compared to that at the end of last year. Please see "Report on Review of Interim Financial Information – Condensed Interim Consolidated Statement of Changes in Equity".

(IV) ANALYSIS OF THE LOAN QUALITY

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	June 30, 2018		December 31, 2017	
	Amount of loans	Percentage (%)	Amount of loans	Percentage (%)
Pass	774,402,674	97.28	654,461,569	97.26
Special mention	12,551,744	1.58	10,650,801	1.58
Non-performing	9,074,667	1.14	7,766,564	1.15
Substandard	2,918,526	0.37	3,359,505	0.50
Doubtful	4,600,243	0.58	2,859,317	0.42
Loss	1,555,898	0.20	1,547,742	0.23
Total	796,029,085	100.00	672,878,934	100.00

The loan quality of our Group was kept at an excellent level. As at the end of the reporting period, according to the five-category classification of supervision system, the pass loans amounted to RMB774.403 billion, representing an increase of RMB119.941 billion as compared with that at the end of last year, accounting for 97.28% of total loans and advances to customers. Loans classified as special mention were RMB12.552 billion, representing an increase of RMB1.901 billion as compared with that at the end of last year, accounting for 1.58% of total loans and advances to customers. The non-performing loans were RMB9.075 billion, representing an increase of RMB1.308 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.14%, representing a decrease of 0.01 percentage points as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In thousands of RMB, except percentages

Item	June 30, 2018				December 31, 2017			
	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	590,403,857	74.17	8,012,404	1.36	518,596,693	77.07	6,961,201	1.34
Personal loans	164,796,268	20.70	1,052,532	0.64	133,932,657	19.90	805,363	0.60
Discounted bills	40,828,960	5.13	9,730	0.02	20,349,584	3.03	-	-
Total	796,029,085	100.00	9,074,667	1.14	672,878,934	100.00	7,766,564	1.15

As at the end of the reporting period, our non-performing corporate loans amounted to RMB8.012 billion, representing an increase of RMB1.051 billion, with a non-performing loan ratio of 1.36%, representing an increase of 0.02 percentage points as compared with that at the end of last year. The personal non-performing loans were RMB1.053 billion, representing an increase of RMB248 million as compared with that at the end of last year, with a non-performing loan ratio of 0.64%, representing an increase of 0.04 percentage points as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In thousands of RMB, except percentages

Item	June 30, 2018				December 31, 2017			
	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	590,403,857	74.17	8,012,404	1.36	518,596,693	77.07	6,961,201	1.34
Manufacturing	122,231,725	15.36	3,784,394	3.10	115,674,946	17.19	3,434,370	2.97
Leasing and commercial services	105,616,818	13.27	116,211	0.11	92,900,199	13.81	96,011	0.10
Real estate	97,291,157	12.22	1,050,079	1.08	73,159,185	10.87	942,404	1.29
Wholesale and retail trade	86,673,768	10.89	2,262,531	2.61	74,865,365	11.13	1,621,041	2.17
Administration of water conservancy, environment and public facilities	57,674,769	7.25	-	-	61,972,488	9.21	-	-
Construction	46,738,308	5.87	389,627	0.83	39,097,951	5.81	437,562	1.12
Financing	16,990,522	2.13	-	-	9,371,760	1.39	-	-
Transportation, storage and postal service	10,831,168	1.36	81,301	0.75	13,858,268	2.06	172,674	1.25
Electricity, heat, gas and water production and supply	8,939,125	1.12	81,308	0.91	7,914,379	1.18	77,548	0.98
Mining	5,299,997	0.67	18,061	0.34	3,919,123	0.58	18,306	0.47
Accommodation and catering	4,619,656	0.58	94,994	2.06	4,468,664	0.66	127,091	2.84
Others ⁽¹⁾	27,496,844	3.45	133,899	0.49	21,394,365	3.18	34,194	0.16
Personal loans	164,796,268	20.70	1,052,532	0.64	133,932,657	19.90	805,363	0.60
Discounted bills	40,828,960	5.13	9,730	0.02	20,349,584	3.03	-	-
Total	796,029,085	100.00	9,074,667	1.14	672,878,934	100.00	7,766,564	1.15

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; health, social security and social welfare.

In 2018, 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. Differential risk prevention and control strategies were formulated for areas such as industries with excess production capacity, real estate, etc., with a view to optimizing the allocation of credit resources continually.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In thousands of RMB, except percentages

	June 30, 2018				December 31, 2017			
	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	452,669,383	56.87	6,359,359	1.40	402,745,180	59.86	5,845,695	1.45
Midwestern China	147,778,718	18.56	1,012,491	0.69	124,495,153	18.50	709,022	0.57
Bohai Rim region	121,792,682	15.30	1,474,809	1.21	90,467,487	13.44	1,075,278	1.19
Pearl River Delta region	73,788,302	9.27	228,007	0.31	55,171,114	8.20	136,569	0.25
Total	796,029,085	100.00	9,074,667	1.14	672,878,934	100.00	7,766,564	1.15

As at the end of the reporting period, taking into account the economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development. As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta region, where the non-performing loan ratio decreased by 0.05 percentage points as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In thousands of RMB, except percentages

	June 30, 2018				December 31, 2017			
	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	309,113,584	38.83	4,021,657	1.30	248,456,852	36.92	3,416,477	1.38
Pledged loans	136,779,744	17.18	456,963	0.33	119,379,949	17.74	63,370	0.05
Guaranteed loans	214,468,126	26.95	4,009,076	1.87	203,506,330	30.24	4,022,127	1.98
Unsecured loans	94,838,671	11.91	577,240	0.61	81,186,219	12.07	264,590	0.33
Discounted bills	40,828,960	5.13	9,730	0.02	20,349,584	3.03	-	-
Total	796,029,085	100.00	9,074,667	1.14	672,878,934	100.00	7,766,564	1.15

Our Group has been optimizing its customer structure continuously, innovating business models, and strengthening cooperation with strategic clients. As at the end of the reporting period, the pledged loans amounted to RMB136.780 billion, representing an increase of RMB17.400 billion or 14.58% as compared with that at the end of last year, which is primarily attributable to the rapid growth of innovative business of the Group, such as “bill pool” (票據池) and “asset pool” (資產池). The guaranteed loans amounted to RMB214.468 billion, representing an increase of RMB10.962 billion or 5.39% as compared with that at the end of last year, which is primarily attributable to the continuous optimization of customer structure.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Ten largest borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Manufacturing	4,367,682.00	0.55
B	Real estate	3,500,000.00	0.44
C	Leasing and commercial services	3,500,000.00	0.44
D	Leasing and commercial services	2,894,191.78	0.36
E	Real estate	2,500,000.00	0.31
F	Manufacturing	2,457,374.16	0.31
G	Wholesale and retail trade	2,089,800.00	0.26
H	Information transmission, computer services and software	2,000,000.00	0.25
I	Construction	2,000,000.00	0.25
J	Real estate	2,000,000.00	0.25
Total		27,309,047.94	3.43

As at the end of the reporting period, the balance of loans to the largest single borrower of the Group was RMB4.368 billion, representing 3.30% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB27.309 billion, representing 20.65% of the net capital and 3.43% of the total loans of the Group.

7. Overdue loans

In thousands of RMB, except percentages

	June 30, 2018		December 31, 2017	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue period				
Overdue by 1 day to 90 days	4,392,282	0.55	1,168,584	0.17
Overdue by 90 days to 1 year	2,815,986	0.35	3,588,877	0.53
Overdue by 1 year to 3 years	3,580,006	0.45	2,337,214	0.35
Overdue by more than 3 years	220,779	0.03	94,751	0.01
Total	11,009,053	1.38	7,189,426	1.07

As at the end of the reporting period, the balance of overdue loans amounted to RMB11.009 billion, representing an increase of RMB3.820 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB6.617 billion, representing an increase of RMB596 million as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Renegotiated loans

The Group exercised strict and prudent control over loan renegotiation. As at the end of the reporting period, renegotiated loans and advances amounted to RMB1.641 billion, representing an increase of RMB1.322 billion as compared with that at the end of last year. Specifically, renegotiated loans and advances that were overdue by more than three months were RMB85 million, representing an increase of RMB35 million as compared with that at the end of last year.

9. Movements in the expected credit loss (“ECL”) allowance on loans

RMB'000

Item	Stage 1	Stage 2	Stage 3	Total
	loss allowances measured at 12-month expected credit loss (“ECL”)	loss allowances measured at Lifetime expected credit loss (“ECL”)	loss allowances measured at Lifetime expected credit loss (“ECL”)	
January 1, 2018	13,072,630	2,016,612	5,950,233	21,039,475
Provision for the period	1,696,018	826,486	1,069,032	3,591,536
transfer during the period:				
Transfer from Stage 1 to Stage 2	(72,873)	706,202	–	633,329
Transfer from Stage 2 to Stage 1	151	(4,348)	–	(4,197)
Transfer from Stage 1 to Stage 3	(19,413)	–	331,185	311,772
Transfer from Stage 3 to Stage 1	11	–	(3,039)	(3,028)
Transfer from Stage 2 to Stage 3	–	(334,475)	760,537	426,062
Transfer from Stage 3 to Stage 2	–	38	(175)	(137)
Sub-total	1,603,894	1,193,903	2,157,540	4,955,337
Write-offs for the period	–	–	(494,067)	(494,067)
Transfers out for the period	–	–	(84,991)	(84,991)
Recoveries of loans write-off in previous periods	–	–	84,603	84,603
Effect of exchange differences and others	5,430	3	(43,476)	(38,043)
June 30, 2018	14,681,954	3,210,518	7,569,842	25,462,314

MANAGEMENT DISCUSSION AND ANALYSIS

(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, 2018, the capital adequacy ratio, tier-one capital adequacy ratio, core tier-one capital adequacy ratio and leverage ratio of the Group were 13.71%, 9.97%, 8.41% and 4.92%, respectively, all of which satisfied regulatory requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Adequacy Ratio (the Group)

In thousands of RMB, except percentages

Item	June 30, 2018	December 31, 2017
Core tier-one capital	81,310,865	74,653,783
Paid-in capital	18,718,697	17,959,697
Part of capital reserves that can be included	22,130,353	17,985,006
Surplus reserves	4,885,381	3,790,406
General risk reserves	18,483,647	17,243,730
Undistributed profits	16,308,287	17,321,758
Part of minority interests that can be included	578,995	353,186
Other	205,506	–
Core tier-one capital deductible items	(190,625)	(203,101)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(190,625)	(203,101)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	–	–
Net core tier-one capital	81,120,240	74,450,682
Other tier-one capital	15,034,863	15,004,755
Other tier-one capital instruments and premium	14,957,664	14,957,664
Part of minority interests that can be included	77,199	47,091
Net tier-one capital	96,155,103	89,455,437
Tier-two capital	36,114,636	20,231,614
Tier-two capital instruments and premium that can be included	25,000,000	10,000,000
Excessive allowance for loan losses	10,960,237	10,137,431
Part of minority interests that can be included	154,399	94,183
Tier-two capital deductible items	–	–
Net capital base	132,269,739	109,687,051
Risk-weighted assets	964,587,058	898,580,080
Core tier-one capital adequacy ratio (%)	8.41	8.29
Tier-one capital adequacy ratio (%)	9.97	9.96
Capital adequacy ratio (%)	13.71	12.21

MANAGEMENT DISCUSSION AND ANALYSIS

Leverage Ratio (the Group)

In thousands of RMB, except percentages

Item	June 30, 2018	December 31, 2017
Tier-one capital	96,345,729	89,658,538
Tier-one capital deductible items	(190,625)	(203,101)
Net tier-one capital	96,155,103	89,455,437
Adjusted asset balance inside the balance sheet	1,574,520,731	1,489,875,148
Asset balance of derivative products	24,226,126	11,555,394
Asset balance of securities financing transactions	49,281,127	42,072,900
Adjusted asset balance outside the balance sheet	307,686,424	308,952,602
Adjusted asset balance inside and outside the balance sheet	1,955,714,408	1,852,456,044
Leverage ratio (%)	4.92	4.83

As of June 30, 2018, the capital adequacy ratio, tier-one capital adequacy ratio, core tier-one capital adequacy ratio and leverage ratio of the Company were 13.66%, 9.89%, 8.32% and 4.84%, respectively, all of which met regulatory requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Adequacy Ratio (the Company)

In thousands of RMB, except percentages

Item	June 30, 2018	December 31, 2017
Core tier-one capital	80,683,622	74,276,535
Paid-in capital	18,718,697	17,959,697
Part of capital reserves that can be included	22,130,353	17,985,006
Surplus reserves	4,882,975	3,790,406
General risk reserves	18,461,991	17,243,730
Undistributed profits	16,284,100	17,297,696
Other	205,506	–
Core tier-one capital deductible items	(1,714,453)	(1,728,060)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(184,453)	(198,060)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	(1,530,000)	(1,530,000)
Net core tier-one capital	78,969,169	72,548,475
Other tier-one capital	14,957,664	14,957,664
Net tier-one capital	93,926,833	87,506,138
Tier-two capital	35,775,107	20,022,159
Tier-two capital instruments and premium that can be included	25,000,000	10,000,000
Excessive allowance for loan losses	10,775,107	10,022,159
Tier-two capital deductible items	–	–
Net capital base	129,701,940	107,528,297
Risk-weighted asset	949,411,090	889,062,694
Core tier-one capital adequacy ratio (%)	8.32	8.16
Tier-one capital adequacy ratio (%)	9.89	9.84
Capital adequacy ratio (%)	13.66	12.09

Leverage Ratio (the Company)

In thousands of RMB, except percentages

Item	June 30, 2018	December 31, 2017
Tier-one capital	95,641,285	89,234,199
Tier-one capital deductible items	(1,714,453)	(1,728,060)
Net tier-one capital	93,926,833	87,506,138
Adjusted asset balance inside the balance sheet	1,559,548,300	1,480,458,676
Asset balance of derivative products	24,226,126	11,555,394
Asset balance of securities financing transactions	49,281,127	42,072,900
Adjusted asset balance outside the balance sheet	308,101,862	309,347,493
Adjusted asset balance inside and outside the balance sheet	1,941,157,414	1,843,434,463
Leverage ratio (%)	4.84	4.75

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

The Company adopts an “active and solid” risk appetite and optimizes risk returns by actively adjusting the structure, operating by law and innovating management approaches, with a view to achieving a balance between capital, risk and return as well as between assets and liabilities. The Company gradually improves the comprehensive risk management system that is in line with the full-asset class operation strategy to ensure the company’s transformation and development with high quality and facilitate the fulfilment of the overall objective of “two most” in a healthy and orderly manner.

The Company’s Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the Senior Management is responsible for implementing comprehensive risk management. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the general department for comprehensive risk management and the leading executive department for management of credit risk, market risk (excluding interest rate risk of banking books), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of interest rate risk of banking books and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general 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 officers to the departments subject to higher business complexity and relatively concentrative risks at our head office. The risk monitoring officers are responsible for helping the leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to the president of our head office. They carry out business judgment and report on risk issues independently. The Company accredits to its branches risk monitoring officers, who help the presidents of the such branches organize comprehensive risk management, and are independent of such branches and directly report to our head office. They carry out business judgment and report on risk issues independently.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to the default of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in on-and off-balance sheet business, 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, the Senior Management, the risk management and internal control committee, the credit, investment and transaction review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business departments, financial technology departments, audit departments, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of systems and policies relating to credit risk management.

The Company formulates fundamental policies for customer financing risk management based on changes in external operating environments and internal operating and risk conditions. Such policies expressly set out guidance on certain aspects of our credit business, such as customer structure, industry structure, regional structure and key business areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBIRC, taking into account such factors as the borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of the project to be financed by the loan and the status of the guarantee. The Company's credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by persons authorized to do so.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The Company strictly complies with the relevant regulatory requirements of the CBIRC and puts loans (including trade finances), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factoring, guarantees, loan commitments and other business whose credit risks are actually to be borne by the Company under its unified credit extension management. Based on a full coverage of various types of credit business, the Company determines the comprehensive credit limits for single corporate customers, group customers and industries.

The Company continuously strengthens the construction of its credit systems and has formulated such systems as the unified total financing quota management and penetrating management systems for group customers to intensify the comprehensive management and unified control of the total financing amount for group customers. The Company keeps improving standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts credit policies in a timely manner and takes effective measures to prevent credit risks.

The Company continuously strengthens the management of loan risks associated with the financing platforms of local governments, strictly complies with the various lending policies and regulatory requirements of the CBIRC 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 sets credit limits for the loans of local governments' financing platforms and strengthens the monitoring and management of loan risks.

The Company continuously strengthens the management of real estate loan risks. The Company engages in real estate credit business prudently, has established a guideline for development of the business in real estate industry, and adjusts our credit extension plans for the real estate industry in a timely manner. The Company sets credit limits for the loans we grant to the customers in the real estate industry and makes dynamic adjustments to such limits, and strengthens the monitoring and management of risks relating to existing loans.

The Company continuously strengthens the management of loan risks for the industries with excessive production capacity, and strictly controls loans we grant 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 and micro enterprise business

The Company conducts unified credit extension management system for small and micro enterprise customers (including individual operators), and puts all types of credit business of small and micro enterprise customers (including individual operators) under our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out 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 strengthens the management of the credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by ways of tracking overdue loans and on-site & off-site monitoring.

(3) Credit risk management for Retail Business

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company has formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains loans with multiple borrowers as well as improves and optimizes the governance mechanism of credit risks associated with personal loans. The Company has continuously enhanced the selection and management of guarantees and improved its ability to mitigate credit risks. The Company continued to strengthen subsequent management of personal loans such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre-business risk prevention, on-going risk monitoring during the process and post-business risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of the process for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) 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 risks associated therewith concentrate in money market business, bond investment business and financial inter-bank business.

The Company's inter-bank finance business involving customer credit risk are included in our unified credit extension management system. When conducting business, we will draw up the customer's credit lines in accordance with the relevant policies for centralized management of customer risks.

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

The Company includes financial institution customers in the customer scope of unified credit management. The Company has formulated the management measures and relevant operating procedures for the unified total financing amount of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension to 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 of losses of on- and off-balance sheet business arising from 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 (For details of 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 control our market risks 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 department, and other departments, as well as branches, sub-branches and subsidiaries. The Senior Management undertakes the responsibility for implementing the market risk management, and is responsible for organizing the market risk management throughout the Bank as well as the formulation and implementation of the fundamental systems and policies for market risk management of the Company.

The main measures taken by the Company to control market risks include position setting management, limit management, hedging and reducing risk exposures. The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, etc.. The Company has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Company has formulated market risk management policies and procedures suiting the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk tolerance level.

During the reporting period, the Company has updated market risk preferences and index system to further improve the market risk management systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management system (ALGO system). 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 market risks for our trading book through stress testing and other methods.

4. Liquidity risk management

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

MANAGEMENT DISCUSSION AND ANALYSIS

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

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, risk management department, planning and finance department (asset and liability management department), head office business departments, financial technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.

The Company managed our liquidity risks in a centralized manner. By establishing a scientific and perfect liquidity risk management system, the Company can effectively identify, measure, monitor, control and report liquidity risks. Specific measures for liquidity risk management include: continuously improving the systems related to liquidity risk management; paying close attention to both domestic and foreign macroeconomic situations 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 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 of liquidity, optimizing our emergency response program for liquidity risks and conducting emergency drills on a regular basis; conducting stress tests for liquidity risks on a regular basis, identifying the weak links in the Company's liquidity risk management based on the results of such tests, adjusting liquidity risk management strategies and 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 at the end of the reporting period, our liquidity coverage ratio was 143.57%, our qualified liquid assets amounted to RMB123.077 billion, and the total net cash outflow over the next 30 days was RMB85.727 billion, with the liquidity ratio being 44.52%.

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel and information technology systems as well as external events. The operational risks that the Company may expose to mainly include, seven categories, namely risks related to internal fraud; external fraud; client, product and business activities; execution, closing and process management; interruption of operations and failure of IT systems; employee management and workplace safety; and damage to assets in kind.

MANAGEMENT DISCUSSION AND ANALYSIS

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, risk management department, internal control and compliance and legal department, other management departments, business departments, financial technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the operational risk management as well as the formulation and implementation of relevant systems and policies for operational risk management.

The objectives of our operational risk management are to "control our operational risks 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. Specifically, the business departments and other management departments constitute the first line of defense; the internal control & compliance management departments and risk management departments at all levels constitute the second line of defense; and, the audit departments constitute the third line of defense. The Company exercises whole-process management of 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 role of the first line of defense in risk prevention and control.

During the reporting period, the Company managed operational risks adhering to the principles of "full coverage, clearly defined duties, honest reporting and quick response". The Company consolidated its foundation work, innovated its management mechanism and intensified its risk prevention and control approaches so as to enhance the quality and efficiency of operational risk management. The Company continued to comb out the business processes, identified risk points and control measures, completed the construction of management systems for operational risks, internal control and compliance and put them into operation successfully. The Company established operational risk management tools in line with the requirements of the New Basel Capital Accord (新資本協議) standards, including risk and control self-assessment, collection of key risk indicators and loss data so as to improve the operational risk management system. The Company strengthened the construction of information systems to enhance management and support for business operations across the bank, organised various employees to receive professional ability training and awareness raising training, carried out inspection to detect any employee who has abnormal behaviors or is not suitable for his/her job, thus effectively strengthening the management of risks associated with employees' behavior. As for the continuity of business, the Company continuously reinforced the management of emergency plans and organised emergency exercises. During the reporting period, the Company's operational risk management system operated smoothly and the overall operational risk level was controllable.

6. Country risk management

Country risk refers to the risk of losses that may be incurred by the Company due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company.

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, risk management department, planning and finance department (asset and liability management department), international business department, financial markets department, retail banking department, other business departments, financial technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advanced the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management systems, limits management measures and schemes, and clarified the organizational structure and division of responsibilities, limits framework, management mechanism, etc. with respect to country risk limits management, and set the index and threshold of country risk limits. The Company regularly conducted assessment and monitoring of country risks and withdrew a provision for country risks.

7. Interest rate risk management of banking book

Interest rate risk in the banking book is the risk of losses in the overall gain and economic value of the banking book arising from adverse changes in interest rate levels 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 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, risk management department, planning and finance department (asset and liability management department), other business departments, financial technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the interest rate risk management of banking book as well as the formulation and implementation of relevant systems and policies for interest rate risk management in the banking book.

The Company evaluates our interest rate risk mainly through sensitivity analysis. Based on our judgment of the trends 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 interest rate trend in local currencies and foreign currencies, keeps abreast of 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 risks.

8. Reputational risk management

Reputational risk refers to the risk that an interested party will have a negative view of the Company as a result of our operations, management and other activities or external events.

Reputational risk management means the dynamic process of reputational risk identification, measurement or assessment, monitoring, control and reporting by the Company through formulation and implementation of a series of systems, measures and procedures, for achieving operational targets and building a good social image.

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events so as to minimize the losses and negative impacts caused by such events on the Company, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, executive office, risk management department, financial technology department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management across the Bank as well as the formulation and implementation of relevant systems and policies for reputational risk management of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company further improved the reputational risk management system, continuously enhanced the management of the sources of reputational risks, actively identified potential risks, improved emergency plans, defined reputational risk reporting and treatment processes and shortened the response time for reputational risks. Meanwhile, the Company further strengthened positive publicity, innovated communication methods, enhanced public opinion guidance and improved the brand reputation of the Company.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

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, the risk management and internal control committee, the risk management department, the development and planning department, the financial technology department, the audit department, other relevant departments of the head office, and branches, sub-branches and subsidiaries.

Adhering to the principle of "clear responsibilities, proactive prevention, overall evaluation and timely adjustment", the Company constantly establishes and improves strategic risk management systems suitable for the scale and features of its business, and has realised effective management of strategic risks. Main management measures include: adapting to current internal and external development environments, actively adjusting the operation and development progress of the Bank for the last three years (2018-2020) in the "Third Five-Year" plan; keeping a close eye on our peers to continuously improve the comprehensive benchmarking management system; continuously carrying out strategic publicity and steadily promoting the transformation and development of branches; enhancing strategic research and situation analysis to improve the strategic risk prediction and assessment ability; strengthening innovative implementation and active management, and reinforcing strategic resilience.

10. Compliance risk management

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

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant 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, responsible person for compliance, risk management department, internal control and compliance and legal department, other management departments, financial technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management as well as the formulation and implementation of relevant systems and policies for compliance risk management.

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

During the reporting period, the Company continuously deepened the compliance operation philosophy, exactly understood risk prevention requirements in the new age, stuck to its bottom line for risks and effectively improved the efficiency of compliance risk management; enhanced analysis, research and judgment and warned of compliance risks, with focus on regulatory priorities, hotspots in the market and work priorities; actively complied with regulatory requirements, made greater efforts to handle chaos in the banking market, effectively prevented operational risks and improved the quality and efficiency of serving the real economy; thoroughly carried out phase II work in the special project of "being protected by internal controls and safeguarded by compliance", actively promoted the compliance culture of the Company, improved the compliance review mechanism and the level of technology for internal control and compliance management, perfected the internal control and compliance system which is commensurate with the development of the Company, created a sustainable internal control and compliance environment; continuously promoted standardised construction of systems, concretized system management rules, improved the life-cycle management of systems, and enhanced the comprehensiveness and effectiveness of systems through systematic collation and analysis; continuously perfected the classified and layered compliance education and training system; continuously promoted the construction of the "3 in 1" project of integrated management of operational risk, internal control and compliance; persistently improved the ability to manage and control legal compliance risks, brought forward the process for monitoring of legal risks, and provided greater legal support for daily operational activities, to ensure the healthy and steady development of the Company's business.

11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising due to natural factors, human factors, technical bugs and management defects in connection with the application of information technologies in the Company.

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

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, chief information officer, risk management and internal control committee, information technology management committee, business continuity management committee, risk management department, financial technology department, relevant departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as the formulation and implementation of relevant systems and policies for information technology risk management.

The Company established a relatively perfect information technology risk management system and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO27001 management system and regulatory requirements; established the business continuity management system, information technology outsourcing risk management system, and established a relatively perfect information security management system and a well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company updated and improved the 2016-2020 Information Technology Development Plan of China Zheshang Bank (《浙 商 銀 行 信 息 科 技 2016-2020 年 發 展 規 劃 》) (Plan π), and formulated the Information Technology Development Plan of China Zheshang Bank (Enhancement Plan 2018-2020) (《浙 商 銀 行 信 息 科 技 發 展 規 劃 (2018-2020 提 升 規 劃 》) ("Plan $\pi+$ "), advanced the construction of "three centers in two places" (兩地三中心) in an orderly manner, actively built up the comprehensive information security ecosphere, and implemented the security control of internet application; strengthened monitoring, assessment and security detection of important information systems; made arrangements for the annual emergency exercise plan and improved emergency plans and held emergency exercises. During the reporting period, the systems operated stably, without the occurrence of any material information technology risk event.

12. Anti-money laundering management

Anti-money laundering management refers to a series of preventive measures and risk control behaviors taken to prevent the laundering activities for covering up and concealing by financial means the nature or source of illegally obtained proceeds and the gains derived therefrom.

The objectives of our anti-money laundering management are to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting an internal control system suitable for the anti-money laundering requirements and our development strategy across the Bank to effectively guard against and control compliance risks associated with money laundering, terrorism financing and sanctions.

In accordance with its governance structure, the Company has established and optimized an anti-money laundering organization framework and management mechanism, under which the Board of Directors, the Board of Supervisors, Senior Management and relevant departments are responsible for layered management, perform their respective duties, and coordinate and cooperate with each other.

During the reporting period, the Company faithfully performed its social responsibility and legal obligation with respect to anti-money laundering, continuously improved the anti-money laundering organizational framework, systems and operating mechanism, and thus the foundation for anti-money laundering was further consolidated, and the work was carried out stably and orderly as a whole. The Company organized and carried out the identification of beneficial owners of non-natural person customers, completed work including the formulation of systems, process improvement and collection of information on existing customers, according to established plans; carefully and properly reported large transactions and suspicious transactions, and continuously improved the quality and efficiency of reporting on suspicious transactions; organized and carried out check of financial sanction risks and anti-money laundering investigations and supported such investigations, and took targeted control measures for high-risk customers and business, strictly complied with anti-money laundering compliance bottom line; optimized the construction of anti-money laundering business systems and name list screening service system, thus continuously improving the technical and managerial capabilities of anti-money laundering; enhanced the assessment of money laundering risks of products and customers, and strengthened the prevention and control of money laundering risk in key areas and business; actively assisted with the state's fourth round of mutual evaluations on anti-money laundering; and guided branches and sub-branches to properly carry out such work as assisting with the anti-money laundering supervision.

MANAGEMENT DISCUSSION AND ANALYSIS

(VII) BUSINESS SUMMARY

1. Corporate banking segment

(1) Corporate business

In term of corporate business, the Company has focused on developing itself into a bank that provides corporate liquidity services, strived to promote the innovation of products and financial services model as well as the transformation and development of business, actively served the key national strategies and the real economy, and achieved multi-win of the society, enterprises and the bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, the Company's corporate business achieved a relatively rapid growth and the core competitiveness was further improved. As at the end of the reporting period, the Company had 84,722 corporate customers, representing an increase of 13,672 corporate customers or 19.24% as compared with that at the end of last year; total corporate loans was RMB590.404 billion, representing an increase of RMB71.807 billion or 13.85% as compared to that at the end of last year.

The Company made proactive responses to the changing situation, grasped the opportunities offered by the entry of China's economy into a new era, implemented the strategy of the State to support the development of emerging industries and promote the transformation and upgrading of the industrial structure, advanced business transformation and development, and made new breakthroughs. The Company helped real-economy enterprises deleverage and reduce costs by virtue of three major platforms, namely pooled financing, Yiqiyin (易企銀) and chain of accounts receivable, and built itself as a bank that provides corporate liquidity services to customers. Meanwhile, the Company actively implemented the strategy of "Made in China 2025", and was the first in the industry to launch the intelligent manufacturing systematic financial solutions featured by "financing with capital, goods and services", trying to become the first "intelligent manufacturing service bank" in the industry. As at the end of the reporting period, the financing balance of the Company in the intelligent manufacturing segment amounted to RMB47.580 billion, representing an increase of 12.70% as compared to that at the beginning of the year.

(2) *International business*

During the reporting period, the Company's international business operations achieved a rapid growth in business scale and profitability by accelerating product innovation and improving service capabilities, and completed international settlement in an amount of US\$42.987 billion, representing an increase of 42.72% on a period-on-period basis, and achieved an intermediary business income of RMB406 million, representing an increase of 67.77% on a period-on-period basis. According to statistics by the State Administration of Foreign Exchange, the Company's foreign exchange receipts and payments in the period from January to June amounted to US\$27.751 billion, representing a period-on-period increase of 29.21%, ranking fifth among national joint-stock commercial banks in terms of growth rate, and the amount of foreign exchange purchased and sold by the Company on behalf of customers during the period from January to June was US\$20.524 billion, representing a period-on-period increase of 105.20%, ranking first among national joint-stock commercial banks in terms of growth rate.

The Company strengthened financing business to support the development of the real economy. The Company promoted models such as letter of credit opening through online banking and financing under credit insurance to provide credit support for export-oriented enterprises. The Company used foreign letters of guarantee, special insurance financing, repatriation of capital for overseas debts and other products to meet the requirements of capital goods export, cross-border investment and financing under the "Belt and Road Initiative" and other requirements. By launching the active credit model of "export foreign exchange receipt loan", the Company mitigated financing problems of small enterprises. As at the end of the reporting period, the Company's on-balance sheet and off-balance sheet trade financing balances amounted to US\$11.909 billion (local and foreign currencies converted to USD).

The Company devoted major efforts to develop agency service for foreign exchange transactions to help enterprises avoid the fluctuation risk in the foreign exchange market. It continuously enriched the product system of "Zheshang Huiliying (浙商匯利盈)". It promoted such innovative functions as carry-over and execution of orders on behalf of clients and created "Zheshang Trading Treasure (浙商交易寶)", an industry-leading internet-based foreign exchange trading terminal. It provided flexible combination of these tools according to the market situation and the needs of customers, so as to satisfy demands of customers for avoiding exchange risks in all respects. During the reporting period, the amount of foreign exchange transacted by the Company on behalf of customers reached US\$25.553 billion, representing a period-on-period increase of 123.58%.

The Company accelerated internet application in its international business to improve service efficiency and customer experience. It actively tracked the FinTech development trend and continuously optimized the international business functions of such online channels as corporate online banking, personal online banking and mobile banking. It created special online functions including "Yongjin Global Transfer (湧金全球匯)" cross-border remittance, "Yongjin Export Pool (湧金出口池)" financing, and issuing import letters of credit through online banking, so as to provide customers with high-quality service experience through convenient and rapid online processing for all processes.

(3) **Corporate liquidity service bank**

The Company focuses on creating values for customers, innovates upon the philosophy of “Internet + Real-economy Enterprise + Financial Service”, and established the pooled financing platform, Yiqiyin (易企銀) platform and accounts receivable chain platform to help enterprises with deleveraging and cost reduction, meet their “self-financing” needs, and build itself up as a “corporate liquidity service bank”.

1. **Pooled financing platform**

The Company paid close attention to the two core needs of enterprises for “reducing financing costs and improving service efficiency” and launched innovative “pooled” and “online” financing business models. The Company introduced the online supply chain finance “1 + N” solution and “Zhizhen Loan (至臻貸)” based on the “three pools” (namely, Yongjin Bill Pool (湧金票據池), Yongjin Asset Pool (湧金資產池) and Yongjin Export Pool (湧金出口池)), which formed a complete set of comprehensive corporate liquidity financial service solutions to help enterprises revitalize current assets such as bills receivables and accounts receivables and realize online operation, self-service financing, withdrawal on demand and loan revolving, thus reducing their provisions and total amount of loans, lowering their corporate financing leverage, reducing their interest expenditure, and lowering their financing costs. As at the end of the reporting period, the Company had 19,404 contracted customers of Asset Pool (Bill Pool), representing an increase of 24.99% as compared with that at the end of last year, with a pooled asset balance of RMB340.391 billion, representing an increase of 19.05% as compared with that at the end of last year. The Company had 2,538 contracted customers of Export Pool, with an accumulated 82,700 pooled accounts receivables, an accumulated pooled asset amount of US\$9.009 billion, and accumulated extended export receivables financing of US\$3.060 billion. For Zhizhen Loan (至臻貸), there were 1,516 contracted customers, representing an increase of 14.33% as compared with that at the end of last year, with a financing balance of RMB49.613 billion, representing an increase of 43.21% as compared to the end of last year.

2. *Yiqiyin platform*

Yiqiyin (易企銀) platform is an innovative and comprehensive financial service platform that provides cost-reducing, efficiency-increasing, safe and efficient services for its members and upstream & downstream enterprises, by innovating upon the philosophy of "Internet + Real-economy Enterprise + Financial Service", integrating professional technologies such as settlement, credit, financing, etc., and innovating upon the cooperation model with group enterprises, core supply chain enterprises and internet transaction platform. The Bank provides custody service, liquidity service and individualized services for customers of Yiqiyin (易企銀) platform, which can facilitate online financing and cost reduction of upstream & downstream enterprises of the supply chain, and support core enterprises to build up a good supply chain ecosystem. As at the end of the reporting period, the Company had 135 Yiqiyin (易企銀) platforms, representing an increase of 56.98% as compared with that at the end of last year which were put into operation, with 493 lending members in total, representing an increase of 110.68% as compared with that at the end of last year and a platform financing balance of RMB6.383 billion, representing an increase of 73.54% as compared with that at the end of last year..

3. *Accounts receivable chain platform*

The accounts receivable chain platform is another significant innovation of the Bank by applying the block chain technology to its corporate accounts receivable business to enhance the corporate liquidity services. It is a company-bank cooperation platform dedicated to handling the issuance, acceptance, confirmation, payment, transfer, pledge and redemption of corporate accounts receivable, which is designed and developed by the Bank on the basis of innovative technology such as Internet and block chain, and for the purpose of solving the pain points and difficulties in corporate accounts receivables. Through such platform, corporate accounts receivables can be converted to electronic payment settlement and financing instruments, helping the enterprises mobilize liquid assets, reduce payables, activate receivables, realize "deleveraging and cost reduction", assisting the enterprises in reducing costs and increasing efficiency, and alleviating the difficult and expensive financing problems of small and medium enterprises. As at the end of the reporting period, the Company had 558 accounts receivable chain platforms which were put into operation, representing an increase of 441.75% as compared with that at the end of last year, with the balance of such operations of RMB23.302 billion, representing an increase of 697.19% as compared with that at the end of last year.

2. Inter-bank financial segment

(1) *Business overview*

In the new market environment, for its inter-bank financial segment, the Company actively implemented a new development philosophy, promoted the transfer of business development from “rapid growth” to “high-quality development”. The Company comprehensively used its advantages in the inter-bank financial sector and took it as its base to serve the real economy. It optimized the risk management and control level in the segment and promoted the transformation to a “transaction-oriented bank”, with a view to finally realising the double goals of meeting financing requirements of customers and developing its own business with high profitability.

(2) *Financial market business*

In terms of its financial market business, the Company continued to build a comprehensive FICC (Fixed income, Currency & Commodity) trading platform which integrates proprietary investment and financing, proprietary trading and commissioned trading, and continuously strengthened its capabilities of innovating on cross-border, cross-market and cross-asset-class business and its abilities to serve customers. The Company cooperated its corporate business, retail business and inter-bank business lines and branches for promoting the development of relevant business. Since 2018, the Company has successfully obtained the membership of Shanghai Futures Exchange for proprietary trading of precious metals, the main membership of the International Swaps and Derivatives Association (ISDA), the “Bond Connect” market maker qualification, and the regular clearing membership of Shanghai Clearing House for central clearing for credit default swaps.

Local Currency trading. In the first half of 2018, there was an increase in the local currency bond market yield, which, however, was followed by a decrease. After the Spring Festival, the bond yield gradually declined. The Company adjusted bond investment strategies in a timely manner based on changes in the market environment, and increased trading activities in bonds and derivatives. During the reporting period, the bond trading volume of the Company reached RMB1,701.838 billion, representing a period-on-period increase of 180.11%. The interest rate swap trading volume was RMB273.852 billion, representing a period-on-period increase of 91.11%.

Foreign Currency Transaction. The Company intensified research and judgement on the foreign exchange market, and comprehensively promoted spot, swap and option business. It spread risks by using diversified transaction portfolios and actively carried out foreign exchange agency business to meet customer requirements. During the reporting period, the trading volume of the Company in the inter-bank foreign exchange market reached US\$465.656 billion, representing a period-on-period increase of 110.97%; the volume of foreign exchange derivative transactions conducted on behalf of customers was US\$12.759 billion, representing a period-on-period increase of 146.05%; the volume of interest rate swap trading was US\$4.677 billion, representing a period-on-period increase of 50.73%; and, the volume of interest rate option trading was US\$14.956 billion, representing a period-on-period increase of 91.94%.

Precious Metal Transactions. The Company effectively took advantage of the trend of the precious metal market and actively carried out transactions of precious metals, in particular, silver. In the first half of 2018, the precious metal transaction volume of the Company reached 31,645.68 tons, representing a period-on-period increase of 422.81%, of which the silver trading volume was 30,327.90 tons, representing a period-on-period increase of 449.38%. During the reporting period, the Company ranked tenth in terms of proprietary trading of gold and first in terms of proprietary trading of silver in Shanghai Gold Exchange, which further showed its influence in the precious metal market.

(3) Capital market business

During the reporting period, the Company adhered to the basic principle of serving the real economy and actively complied with requirements of regulatory policies. Against the backdrop of new regulations on asset management and changes in the market environments, the Company promoted business transformation on its own initiative, actively engaged in business innovation, continuously improved its products and services system, optimized business models, improved its abilities for active management of assets and for design of investment and financing solutions, with a view to continuously elevating its comprehensive financial service level for customers and meeting their diversified financing needs. Meanwhile, the Company further improved its business process and optimized its organisational structure and risk control system to enhance business effectiveness to a professional level. The Company adopted a synergy strategy between the head office and the branches to continuously improve its service capabilities of capital market business.

(4) **Financial inter-bank business**

The beginning of 2018 witnessed new development opportunities for the financial inter-bank business. On the overall scale, the Company took advantage of the trend and streamlined its scale. The inter-bank assets decreased compared with that at the end of last year. On the asset structure, the Company increased the proportion of assets such as asset securitization products and credit bonds to improve the liquidity of assets and better satisfy the financing needs of the real economy enterprises.

The company strictly complied with various regulatory requirements, focusing on serving the real economy and promoting the linkage of “investment, debt, loan, and ticket”, and formulated low-cost, highly customized financing solutions for the company’s entity customers through diversified interbank investment products.

(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, to enjoy professional efficiency higher than our peers and to provide 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 efficiency priority”.

As at the end of the reporting period, the balance of our wealth management products amounted to RMB314.140 billion, representing a decrease of 10.05% as compared with that at the beginning of the year. The proportion of funds from individuals and companies increased by 25.67 percentage points and 1.19 percentage points respectively, and the proportion of funds from interbank customers decreased by 26.86 percentage points, as compared with that at the beginning of the year. During the reporting period, the Company issued wealth management products in a total amount of RMB388.982 billion, representing an increase of 54.79% on a period-on-period basis, and realized investment income in a total amount of RMB10.221 billion for customers, representing an increase of 72.68% on a period-on-period basis. During the reporting period, the Company continued its efforts to build an asset management brand and won such professional awards as “2018 Junding Award for Bank Wealth Management Brands in China (2018中國銀行理財品牌君鼎獎)” and “2018 Junding Award for Excellent Wealth Management Institutions (2018優秀財富管理機構君鼎獎)” by the Securities Time.

(6) *Investment banking business*

In the investment banking business, the Company focused on basic customers, made innovative use of investment banking products, provided customers with bond underwriting services, built itself up as a direct financing service bank, and continuously enhanced its market competitiveness and influence. During the reporting period, the Company continuously innovated and improved investment banking products and business models which met market requirements. It successfully used various matured products and innovative products in the interbank market. It enhanced the investor base and made efforts to provide customers with direct financing services through investment banking business, thus continuously serving the real economy. During the reporting period, the Company underwrote various bonds in a total amount of RMB81.694 billion in the interbank market, representing a period-on-period increase of 52.01%, including local government bonds, financial bonds, corporate bonds and asset-backed securities, acting as sole lead underwriter, joint lead underwriter, financial advisor or in other capacity.

The Company was granted the “2018 Junding Award of Investment Banking (Industry) in China (2018中國區銀行(行業) 投行君鼎獎)” and the “2018 Junding Award of Bond Underwriting Bank in China (2018中國區債券承銷銀行君鼎獎)” by Securities Times, and the “Annual Excellent Trading Asset-backed Notes (年度優秀交易資產支持票據)” by China Securitization Forum, for the investment banking business.

(7) *Asset custodian business*

Adhering to the philosophy of “providing customers with one-stop services across different markets in a professional manner”, the Company based its asset custodian business on customer requirements and drove its development by virtue of technology system innovation, while sticking to the bottom line of risk management, with a view to building a high-quality custodian bank brand with the characteristics of the Company. During the reporting period, the Company focused on changes in the capital management market, seized business development opportunities and realized a rapid development in its securities investment fund custody business through various measures such as its effective linkage and synergistic mechanisms, “banking peer investment matching” and “customized fund redemption and advancement plan” and “agency service for sale of funds”.

As at the end of the reporting period, the assets held in custody by the Company reached RMB1.68 trillion, representing a period-on-period increase of 2.80%; the assets of the public securities investment fund held in custody reached RMB103.716 billion, representing a period-on-period increase of 168.34%; the accumulated income from custody was RMB0.286 billion, representing a period-on-period increase of 30.20%. The business grew stably as a whole.

3. Large retail segment: small enterprise business

During the reporting period, the Company focused on accelerated development, stuck to its business orientation and further enhanced the sustainability of inclusive finance. As at the end of the reporting period, the balance of national-standard small and micro enterprise loans reached RMB203.880 billion, representing an increase of RMB21.674 billion or 11.90% as compared with that at the end of last year, and the small and micro enterprise loans accounted for over 25% of all loans.

Adherence to the path of sustainable “inclusive finance”. The Company has established a matrix, penetrating and three-layer inclusive finance operation management system, continuously improved the inclusive finance operation mechanism, continuously enhanced the construction of institutions exclusively engaged in services for small and micro enterprises so as to promote sustainable and balanced development of inclusive finance. As at the end of the reporting period, the balance of small and micro enterprise loans granted by the Company under inclusive finance with the individual total credit line less than RMB10 million (inclusive) was RMB135.836 billion, representing an increase of RMB22.964 billion or 20.35% as compared with that at the beginning of the year, which was 2.05 percentage points higher than the growth rates of total loans and advances to customers for the same period. The number of customers with a loan balance reached 80.7 thousand, representing an increase of 11.3 thousand as compared with that at the beginning of the year. The Company maintained a stable interest rate level for loans to small and micro enterprises and a good quality of assets with a non-performing loans ratio of only 0.92%, representing a decrease of 0.03 percentage points as compared with that at the beginning of the year.

Enhancement of cluster marketing to customers in emerging industries. With focus on new industries and new business forms, the Company gained a foothold in industrial parks, hi-tech development zones and characteristic towns with a higher degree of clustering of small and micro enterprises. It supported new business forms with regional characteristic, using product innovation and efficient processes. As at the end of the reporting period, the balance of loans granted by the Company to small and micro enterprises in new industries was RMB50.116 billion, representing an increase of RMB7.908 billion or 15.63% as compared with that at the beginning of the year, of which RMB3.382 billion were granted to 1,166 customers in hi-tech parks or core enterprise industry chains, and RMB0.304 billion were granted to 378 small and micro customers to purchase intelligent devices.

Promoting the transformation of business from offline to online. The Company continuously promoted a new-generation online process. It reduced service costs, and improved customer experience and service efficiency by promoting the application of such mobile operation tools and on-line processes as “Rongchatong (融查通)” and “e-application”. It devoted major efforts to promote “Easy Loan (點易貸)”, a purely online business, to comprehensively enhance the popularity and convenience of small and micro finance.

Continuously increasing customer value with comprehensive service. The Company actively promoted the application of "Asset Pool", receivables chain platform, international business and other products among small and micro enterprises so as to provide customers with more flexible and convenient financial services. As at the end of the reporting period, there were 4,488 small and micro enterprise customers signing up for the asset pool, with a total amount of RMB17.130 billion invested in the asset pool. The Company improved the settlement experience of customers and enhanced customer stickiness by flexibly using "Zenglijia (增利加)", Zhanghutong (賬戶通), small and micro settlement card (小微結算通卡) and other non-credit products. As at the end of the reporting period, the average number of products used by small and micro enterprise customers was 4.93, representing an increase of 0.41 as compared with that at the beginning of the year.

4. Large retail segment: retail banking business

In the retail banking business, the Company persisted in creating a personal wealth management bank to create value together with customers. The Company stuck to fintech innovation, continuously perfected business system, continuously optimized product and service experience, and accelerated its shift to coordinated development in terms of effectiveness, quality and size.

As at the end of the reporting period, the total amount of personal financial assets in the Company reached RMB352.657 billion, representing an increase of 29.26% as compared with that at the beginning of the year; and the total number of effective personal customers was 4,238.0 thousand, representing an increase of 18.03% as compared with that at the beginning of the year.

(1) Personal deposit and loan business

The Company continuously enhanced the innovation of personal deposit products and focused on perfecting the core deposit product system. It launched "Kuailijia (快利加)" and "Shenglijia (升利加)", further enriching the existing deposit products of "Jia" series. Meanwhile, it launched RMB personal structured deposit products, expanding the sources of basic deposits and driving a rapider growth of personal deposits. It achieved stable and rapid development of personal loan business by continuous online and offline marketing of basic and innovative personal loans and use of technologies for risk control. As at the end of the reporting period, the balance of personal deposits of the Company was RMB91.199 billion, representing an increase of 63.77% as compared of that at the beginning of the year; and the balance of personal consumption loans and personal housing loans was RMB49.723 billion, representing an increase of 29.20% as compared with that at the beginning of the year, with a non-performing loan ratio of 0.19%, which means that the quality of assets remained at a good level.

(2) *Wealth management*

The Company is committed to meeting the integrated financial needs for customer development and continuously improving its wealth management capability through financial technology. With focus on “Finance Market” and “Wealth Cloud”, the Company provided customers with comprehensive liquidity solutions, and in conjunction with the wealth management products including Yongle Finance (永樂理財), Characteristic Deposit and investment agency product, continuously improved the return on assets for customers, while meeting liquidity demands of customers. As at the end of the reporting period, the balance of personal wealth management was RMB230.614 billion, representing an increase of 98.76% as compared to the same period of last year, accounting for 73.41% of the total wealth management balance of the Bank; the balance of characteristic deposits was RMB43.634 billion, representing an increase of 145.13%, as compared with that at the beginning of the year; and the fee income from sales agency service were RMB0.111 billion, representing an increase of 205% as compared to the same period of last year. In addition, the Company actively complied with the Guiding Opinions on Further Regulating the Services Relating to the Internet Sales and Redemption of Money Market Funds (Announcement No. 10 [2018] of CSRC) (《關於進一步規範貨幣市場基金互聯網銷售、贖回相關服務的指導意見》(中國證監會公告[2018]10號)) and completed business transformation of Zengjinbao (增金寶) on June 27, 2018. As at the end of the reporting period, the balance of Zengjinbao (增金寶) was RMB16.750 billion, representing a decrease of 49.29% as compared with that at the beginning of the year.

(3) *Private banking*

During the reporting period, the Company enhanced its ability to serve customers, increase wealth and allocate assets through improving the three main systems, namely product, characteristic value-added service and professional team, thus developing the core competitiveness of private banking. It successively launched many private-banking specialist on investment and wealth management products with controllable risks, higher earnings, and diversified terms. The Company made efforts to develop value-added services including “airport and high-speed rail 7x24 hours free car pickup” service and “Z20” high-end series activities. As at the end of the reporting period, the number of private banking customers with the daily average financial assets in a month equal to or exceeding RMB6 million reached 5,903, representing an increase of 24.09% as compared with that at the beginning of the year.

(4) Credit card business

The Company was committed to developing a flexible and rapid credit card business with high-quality interests and services which centered on customer demands. It focused on promoting Qinghe Card (青荷卡), Shenzhou Changxing Card (神州暢行卡) and other characteristic co-branded cards, and launched a pocket money product which allows “immediate borrowing and repayment”. It continuously improved the scenario-based instalment system including repayment by installments of loans for parking space, tuition, home decoration and auto purchase. It carried out a series of theme promotion activities, including “interesting discovery • high-quality life”, “interesting discovery • great difference”, “interesting discovery • high popularity”, “interesting discovery • credit card consumption every week”. Based on the “revolving” function of a credit card, it continuously met the capital and living needs of customers and created a life-time financial life service account.

As at the end of the reporting period, the total number of credit cards issued by the Company was 3,136.1 thousand, including 638.8 thousand credit cards issued during the reporting period, representing a period-on-period increase of 24.11%, which contributed to a consumption of RMB26.279 billion, representing a period-on-period increase of 171.17%, with an overdraft balance of RMB12.422 billion, representing an increase of 71.77% as compared with that at the beginning of the year, and a non-performing loan ratio of 1.06%.

5. e-finance and Electronic Banking

(1) e-finance

During the reporting period, the Company's e-finance business made further efforts to transfer the target customers of e-finance to the real economy, so as to provide real-economy enterprises with embedded services. In addition to satisfying the needs for real economy to make payments and settlements, the Company, by combining with the comprehensive settlement and financing service, launched asset business through alliance platforms. By conducting deeper industry analysis, the Company continued to shift the focus of its innovation to more innovative scenarios. The Company designed and provided tailor-made embedded financial services based on the specific application features of various real production and living scenarios.

(2) *Electronic Banking*

The Company has formed a complete electronic banking service system consisting of online banking, direct banking, telephone banking, mobile banking, WeChat banking and self-service banking. The replacement rate of electronic banking channels reached to 98.54%, representing a leading position in the industry.

Online banking

During the reporting period, the Company launched its completely new 4.0 version for its personal online banking. The new version was customer-oriented and offered significantly improved customer experience as the information architecture was optimized comprehensively and more concise pages together with much clearer reminders were provided, besides, scan login, payment for daily-life expenses and other useful functions were also added. As at the end of the reporting period, the number of customers with personal online banking certificate reached to 973.9 thousand, representing a period-on-period increase of 70.43%; the number of business transactions completed through personal online banking was 13,231,600 with a transaction value of RMB544.919 billion.

During the reporting period, the Company further optimized the corporate online banking, which led to consistently improved customer experience. As at the end of the reporting period, the number of customers corporate online banking certificate reached to 104.1 thousand, representing a period-on-period increase of 39.89%. A total number of 24,275.4 thousand transactions were completed via our corporate online banking system for the year, with a transaction value of RMB4,668.668 billion.

Direct banking

During the reporting period, continuous optimization and upgrading was made by the Company, face login function was added while gesture login and fingerprint login functions were also available, which made it more flexible and convenient for customers to choose from. At the same time, the Company had a series of optimization of its anti-money laundering functions, therefore making direct banking safer and more controllable. To enrich its online products and service and further satisfying customers' financial needs, the Company launched an asset management product named "Anxinyouxuan (安鑫优选)" as well as online application for personal loan products. In addition, to acquire customers online by using scenarios, the Company continuously optimized and promoted the "Yuntuo Platform (云拓平台)", a scenario-based marketing and promotion platform, as well as "Yibaozheng (易保证)", a scenario-based product aiming to acquire customers.

As at the end of the reporting period, the number of customers of direct banking was 1,365.8 thousand.

Telephone banking

The Company upheld a service concept of “centering on customer needs and providing beyond-expectation service”. It broke the traditional ways to provide customer service and forged, by continuous expansion of all-media service channels, continuous transformation of intelligent operation models for customer service, and further exploration of customer needs by way of big data, an integrated service platform which provides customers with 7x24 hours service covering the whole process of selling (namely pre-sale, during-sale and after-sale). The Company’s customer service covers the entire financial business of the Bank and such service was provided by way of intelligent voice, manual telephone, intelligent online robot, online manual service, video call, WeChat, email and other means.

During the reporting period, a total number of 2,394,200 calls from customers was addressed, among which 1,236,500 calls were transferred to manual service, with a customer satisfaction rate of 99.88%; 233,600 times of service were provided to online customers, with a response rate of 94.98% and complaint resolution rate of 100%.

Mobile banking

During the reporting period, the Company launched the face identification technology across mobile banking and other mobile customer ends by cooperating with leading biometric identification technology providers, which makes it more convenient for customers to use and provides safer and more reliable identity authentication. As at the end of the reporting period, the number of personal mobile banking customers of the Company was 1,947,300, representing a period-on-period increase of 170.36%.

WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform where new types of financial services will be provided and brand will be marketed. It launched its official mini app with the main aim of providing new kinds of online marketing and outlet appointment channels. Customers may have access to information on, amongst others, our wealth management products, precious metal, foreign exchange rate by simply scanning the WeChat QR code via the WeChat, they can also make appointments for services at a specific outlet, thereby achieving seamless connection between online e-channels and offline service outlets. As at the end of the reporting period, the number of WeChat banking users of the Company was approximately 2,010,000, and messages sent by WeChat banking were read over 3,840,000 times.

Self-service banking

During the reporting period, the Company continued to push forward the construction of self-service banking channels. It provided automated teller machines, cash recycling systems and various other 7x24 hours self-service banking service so as to fully satisfying customers’ needs to deposit, withdraw and transfer money, to inquire balance, to change password as well as other needs. As at the end of the reporting period, the Company had 222 self-service banks and 483 self-service machines.

MANAGEMENT DISCUSSION AND ANALYSIS

(VIII) INFORMATION ABOUT MAJOR SUBSIDIARIES

As a subsidiary controlled by of China Zheshang Bank, Zheyin Financial Leasing obtained its business license on January 18, 2017, with a registered capital of RMB3 billion. Its business scope covers finance leasing, transfer and being transferred of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of 3 months or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale-and-disposal of leasehold, economic consulting as well as other business approved by CBIRC. As at the end of the reporting period, Zheyin Financial Leasing had 81 employees in total with a total asset of RMB15,217,600,000 and net asset of 3,094,610,000, for the reporting period, the Company realized a net profit in the reporting period of 47,430,000.

(IX) OUTLOOK

In the second half of 2018, the Company will thoroughly implement the spirit of the 19th National Congress of the Communist Party of China as well as the spirit of the meetings of the National People's Congress and Chinese People's Political Consultative Conference. Guided by the general objectives to develop itself into the most competitive joint-stock commercial bank in China and the most important financial platform in Zhejiang, the Company will continue to promote the full asset operation strategy and strive to win the battles to "strengthen the customer base", "enhance the debt capacity", "optimize the asset structure" and "make efforts to develop financial technologies". The company aims to improve the operating performance by way of reducing consumption, increasing revenue and saving expense. By clearly understanding the changes in situation both home and abroad, its ability in terms of predicating policy and market changes, the Company will set new risk management systems and mechanisms. Management accounting will be implemented across the Bank to enhance the management of the profit center and cost center. It will promote a high-quality growth in a unwavering manner by strengthening innovation of financial technology and business model, unifying thinking and focusing on transformation.

(I) OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, the Company made efforts to establish a corporate governance mechanism which clearly defines duties, ensures checks and balances as well as orderly coordination and brings about democracy in decision-making and standard and efficient operation. The bottom line of the Company's corporate governance is to comply with laws and regulations and the basic aim is to improve the corporate governance system by reference to the best practices of outstanding companies, by on giving play to the decision-making role of the Board and strengthening the supervision role of the Board of Supervisors. The Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, the Senior Management and other governing bodies operated independently and in a coordinated manner, they also provided checks and balances on and cooperated with each other.

During the reporting period, a total of 36 meetings were held, including 1 shareholders' general meeting, 2 class meetings of shareholders, 7 board meetings, 15 meetings of special committees of the Board, 7 meetings of the Board of Supervisors, and 4 meetings of special committees of the Board of Supervisors. Through the aforesaid meetings, the Company considered and approved the annual report of the Company, the work reports of the Board of Directors, the Board of Supervisors and the president, the final account report, the financial budget report, the profit distribution plan, the related party transaction report, the election of Directors for the 5th session of the Board, the election of shareholder representative Supervisors and external Supervisors for the 5th session of the Board of Supervisors, the extension of the validity period of the A-share offering and listing plan, the amendment to the Articles of Association and other material proposals.

During the reporting period, according to requirements of domestic and foreign regulatory authorities, the Company further improved the corporate governance system by amending the Articles of Association, the Internal Audit Charter of China Zheshang Bank, the Rules of Procedure for the Inclusive Finance Development Committee of the Board of China Zheshang Bank Co., Ltd. and other systems and measures.

(II) SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company held on June 27, 2018 the 2017 Annual General Meeting, the 2018 First Class Meeting for Domestic Shareholders and the 2018 First Class Meeting for H Shareholders. For details of relevant proposals and relevant announcements about the resolutions adopted at the meetings, please refer to the circular for the general meetings dated May 10, 2018 and poll results announcement dated June 27, 2018 in connection with the general meetings 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 above 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 engaged to witness onsite and provide legal opinions for the meetings.

(III) MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, the Board organized and convened 7 Board meetings, at which 56 resolutions were considered and approved and 4 special reports were heard.

During the reporting period, the special committees of the Board organized and convened a total of 15 meetings, including 1 meeting by the Strategic Committee, 1 meeting by the Audit Committee, 7 meetings by the Risk and Related Party Transaction Control Committee, 4 meetings by the Nomination and Remuneration Committee, 1 meeting by the Consumer Rights Protection Committee, 1 meeting by the Inclusive Finance Development Committee, at which 64 resolutions were considered and approved and 1 special report was heard.

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

During the reporting period, the Company held a total of 7 meetings of the Board of Supervisors, at which 21 resolutions were considered. The special committees of the Board of Supervisors convened a total of 4 meetings, including 1 meeting by the Supervision Committee where 6 resolutions were considered and 3 meetings by the Nomination Committee where 6 resolutions were considered.

(V) BOARD DIVERSITY POLICY

In accordance with relevant provisions of the Hong Kong Listing Rules, for the purpose of Board diversity, the Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd., specifying that in setting up the composition of the Board, it shall consider various diversifying factors, including but not limited to gender, age, culture, educational background, professional experience, skill, knowledge and/or length of service. The Company will also, from time to time, take into account its business models and other specific requirements, as well as a balanced inclusion of executive and non-executive Directors.

The Board carefully reviewed its diversity as well as the independence of its independent non-executive Directors, and believed that its diversification construction complied with relevant provisions under the Hong Kong Listing Rules and other laws and regulations, met the requirements for the Company to achieve strategic targets and sustainable development, and that all of the independent non-executive Directors have the requisite independence to act as independent non-executive Directors.

(VI) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company has always been attaching high importance to information disclosure, and has been strictly complying with various regulatory rules of the places where its shares are listed. In addition to fully implementing various regulatory rules, the Company has been, by taking into account day-to-day business practices and from the perspectives of system construction and work procedure design, continuously improving the implementation rules with respect to the management of information disclosure.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. Information disclosure management system has been put in place, which designated the department responsible for inside information management and provided that information shall be disclosed in a timely and compliant manner pursuant to the requirements and procedures under the Hong Kong Listing Rules.

During the reporting period, the Company, by strictly abiding by relevant information disclosure laws and regulations, disclosed information in a truthful, accurate and complete manner. A total of 36 various announcements were released simultaneously on the websites of the Hong Kong Stock Exchange and the Company, ensuring equal access for all shareholders to relevant information of the Company and enhanced transparency of corporate governance.

(VII) MANAGEMENT OF INVESTOR RELATIONS

The Company made consistent efforts to improve the management of investor relations and to promote the alignment between market value and intrinsic value. With an aim of maximizing investors profit and protecting their legitimate rights and interests, the Company cultivated a corporate culture to serve and respect investors. Sound interaction between the Company and the investors was also encouraged so as to enhance investors' understanding and recognition on the Company.

During the reporting period, by taking advantage of additional H share issuance and the opening of Hong Kong Branch, the Company strengthened its communicating and marketing efforts in both domestic and overseas markets by having in-depth exchanges with investors and analysts and timely addressing investors' concern, therefore effectively expanding the scope of investors that were covered.

During the reporting period, the Company formulated and improved the administrative measures for investor relations in accordance with the regulatory requirements of the listing place and by taking into account practical experience. Investor relations were managed by various means so that service provided to investors can be consistently enhanced. The Company accepted and handled matters related to investor relations by way of reverse roadshow, websites, telephone, e-mail and other means addressed and provided feedback on questions raised by investors in a timely manner, which effectively promoted a deeper understanding of the Company's value by investors and analysts on and enhanced the Company's influence in the capital market.

In order to get the attention and recognition from more investors, the Company consistently strengthened the management of webpage for investor relations, timely updated the content of such webpage and made efforts to improve the collection of investor information. In addition, the Company also tracked in a timely manner analyst reports, monitored on a dynamic basis media and public opinions and earnestly understood from the capital market its advice on the operation and development of the Company.

CORPORATE GOVERNANCE

(VIII) SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct for securities transactions by Directors and Supervisors, which is not less rigorous than the Model Code set out in Appendix 10 of the Hong Kong Listing Rules. The Company has confirmed with all Directors and Supervisors and hereby acknowledged that they have been complying with the aforesaid code during the period from January 1, 2018 to June 30, 2018.

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

The Company agrees to the principles as set out in Corporate Governance Code and Corporate Governance Report (Appendix 14 to the Hong Kong Listing Rules). From January 1, 2018 to June 30, 2018, the Company has been in full compliance with the provisions under the such Code.

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, 2017		Change in number during the reporting period	June 30, 2018	
	Number	Proportion		Number	Proportion
Domestic shares	14,164,696,778	78.87	–	14,164,696,778	75.67
H shares	3,795,000,000	21.13	+759,000,000	4,554,000,000	24.33
Total ordinary shares	17,959,696,778	100.00	+759,000,000	18,718,696,778	100.00

Notes:

1. The Company issued 759,000,000 new H Shares during the reporting period.
2. As at the end of the reporting period, the Company had 28 holders of domestic Shares in total and 134 holders of H Shares in total.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(II) SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF ORDINARY SHARES

Unit: Share, %

No.	Name of shareholders	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⁾ in which: Zhejiang Seaport (Hong Kong) Co., Limited	-	+759,001,000	4,553,740,900	24.33	H Shares	unknown ⁽¹⁾
		-	-	864,700,000	4.62	H Shares	490,000,000
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned Legal Person	-	2,655,443,774	14.19	Domestic Shares	-
3	Traveller Automobile Group Co., Ltd.	Domestic Non-State-owned	-	1,346,936,645	7.20	Domestic Shares	310,000,000
4	Hengdian Group Holdings Limited	Domestic Non-State-owned	-	1,242,724,913	6.64	Domestic Shares	-
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned Legal Person	-	841,177,752	4.49	Domestic Shares	-
6	Minsheng Life Insurance Company Ltd.	Domestic Non-State-owned	-	803,226,036	4.29	Domestic Shares	-
7	Zhejiang Yongli Industry Group Co., Ltd.	Domestic Non-State-owned	-	548,453,371	2.93	Domestic Shares	548,453,371
8	Tong Lian Capital Management Co., Ltd.	Domestic Non-State-owned	-	543,710,609	2.90	Domestic Shares	-
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic Non-State-owned	-	518,453,371	2.77	Domestic Shares	389,640,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic Non-State-owned	-	508,069,283	2.71	Domestic Shares	-

Notes:

- (1) The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system. Except for the 490,000,000 shares in the equity interest held by Zhejiang Seaport (Hong Kong) Co., Limited which were pledged, the Bank did not know whether the remaining shares are pledged.

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 at 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 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	14.19	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Share	Long position	2,655,443,774	14.19	18.75
Traveller Automobile Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Jiang Jinsheng	Interests of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Qiu Jianlin	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Group Holdings Limited.	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74
Lou Zhongfu	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74
Chen Xiaxin	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.54	6.00
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.49	5.94
Zhejiang Provincial Energy Group Company Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.45	14.18
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner	H Shares	Long position	365,633,000	1.95	8.03
Zhejiang Energy International Co., Ltd. (浙江能源國際有限公司)	Beneficial owner	H Shares	Long position	280,075,000	1.50	6.15
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.29	5.67
China WanXiang Holding Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67
Lu Weiding	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67

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 interest (%)	Approximate percentage of the relevant class of Shares (%)
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	4.06	5.37
Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.06	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	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	5.34	21.96
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.66	15.04
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	864,700,000	4.62	18.99
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	864,700,000	4.62	18.99
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.99	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.34	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Liu Yaozhong	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49

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 interest (%)	Approximate percentage of the relevant class of Shares (%)
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	1.34	5.49
Hong Kong Xinhui Investment Co., Ltd.	Beneficial owner	H Shares	Long position	389,037,000	2.08	8.54
Xinhui Zhongbao Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
Zhejiang Xinhui Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
Huang Wei	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	Long position	1,291,852,100 ^(Note)	6.90	28.37
	Interest of controlled corporation	H Shares	Short position	1,291,852,100 ^(Note)	6.90	28.37
CITIC Securities International Company Limited	Interest of controlled corporation	H Shares	Long position	1,291,852,100 ^(Note)	6.90	28.37
	Interest of controlled corporation	H Shares	Short position	1,291,852,100 ^(Note)	6.90	28.37
CLSA B.V.	Interest of controlled corporation	H Shares	Long position	1,291,852,100 ^(Note)	6.90	28.37
	Interest of controlled corporation	H Shares	Short position	1,291,852,100 ^(Note)	6.90	28.37
CITIC CLSA Global Markets Holdings Limited	Interest of controlled corporation	H Shares	Long position	1,291,852,100 ^(Note)	6.90	28.37
	Interest of controlled corporation	H Shares	Short position	1,291,852,100 ^(Note)	6.90	28.37
CSI Capital Management Limited	Beneficial owner	H Shares	Long position	1,291,852,100 ^(Note)	6.90	28.37
	Beneficial owner	H Shares	Short position	444,766,085 ^(Note)	2.38	9.77
CSI Financial Products Limited	Beneficial owner	H Shares	Short position	847,086,015 ^(Note)	4.53	18.60
Goncius I Limited	Beneficial owner	H Shares	Long position	792,843,890 ^(Note)	4.24	17.41
	Beneficial owner	H Shares	Short position	792,843,890 ^(Note)	4.24	17.41

Note: This part involves derivative instruments. For details, please refer to the relevant disclosure of interests available on the website of the Hong Kong Stock Exchange.

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 and short position in the Shares and 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 as at June 30, 2018.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

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

As at the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.19% of the shares of the Company and was the Company's largest Shareholder of 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, asset management and other business.

(V) ISSUE AND LISTING OF SECURITIES

In order to keep the core capital adequacy ratio remaining constantly at the required level, and to meet the capital requirements of the Company for its continuous business development, with the approval under the Circular (Yin Jian Fu [2018] No.16) of the CBIRC and the Circular (Zheng Jian Xu Ke [2018] No.486) of the CSRC, on March 29, 2018, the Bank allotted and issued to not less than 6 placees, who and whose ultimate beneficial owners were not connected persons of the Bank, at a placing price of HK\$4.80 per share, 759,000,000 new H Shares (the aggregate nominal value amounted to RMB 759,000,000), respectively representing approximately 16.67% and 4.05% of entire issued H shares and the entire issued share capital of the Bank as enlarged by the allotment and issue of the placing shares. The gross proceeds from the placing amounted to HK\$3,643.2 million, and the net proceeds, after deducting all relevant costs and expenses, including commission and attorney fee, were approximately HK\$3,615.2 million and were used to replenish the core tier 1 capital of the Bank. The net price (after deducting all applicable costs and expenses, including commission and legal fees) to be raised per H Share was approximately HK\$4.76. The closing price of our H Share was HK\$4.89 on the date when the Placing Agreement was entered (namely, on March 23, 2018).

The total number of the issued ordinary Shares of the Company increased from 17,959,696,778 Shares to 18,718,696,778 Shares as a result of the issue of the placing shares. Upon the completion, the total number of issued H Shares increased from 3,795,000,000 Shares to 4,554,000,000 Shares, and the number of domestic shares remained unchanged at 14,164,696,778 Shares.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(VI) INFORMATION ON OFFSHORE PREFERENCE SHARES

1. Issuance and Listing of Offshore Preference Shares

Pursuant to the approval of the CBIRC (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 (Stock Code of Preference Shares: 4610).

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 CBIRC and the CSRC, the capital raised from the Offshore Preference Shares issuance, after deducting issuance fees, were all used to replenish the Bank's Additional Tier 1 Capital, to increase the Tier 1 Capital Adequacy Ratio of the Bank and to 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 provisions with respect to the rights and interests of the Offshore Preference Shares have been included in the Company's Articles of Association, which can be found on the websites of the Hong Kong Stock Exchange and the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

3. Number of Shareholders and Shareholding of Offshore Preference Shares

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

Name of Shareholders	Nature of Shareholders	Share Class	Increase/ Decrease during the Reporting Period	Shareholders Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
			(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) Shareholding information on shareholders of Offshore Preference Shares was provided based on the information specified in the register of shareholders of Offshore Preference Shares of the Bank.
- (2) As the issuance was an offshore non-public offering, what is listed in the register of shareholders of Offshore Preference Shares is the information on the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as a nominee on behalf of the placees in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. As at the end of the reporting period.

4. Profit Distribution for the Offshore Preference Shares

The Bank paid the dividend in cash once a year to the holders of the Offshore Preference Shares. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be carried forward 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.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

According to the resolution and authorization of shareholders' general meeting, the Board meeting dated December 20, 2017 deliberated and adopted the Proposal for Distributing Dividends for Offshore Preference Shares, approving the Bank to distribute the dividends for Offshore Preference Shares for the first time on March 29, 2018. Pursuant to relevant laws and regulations of China, while distributing dividends for offshore preference shares to offshore non-resident corporate shareholders, the Bank shall withhold and pay on behalf the corporate income tax calculated on a rate of 10%. According to relevant terms and conditions with respect to the Bank's Offshore Preference shares, relevant taxes and fees shall be paid by the Bank. The dividends for Offshore Preference Shares distributed this time totaled to US\$131,708,333.33, including: US\$118,537,500 actually paid to shareholders of the offshore preference shares according to an annual dividend yield rate of 5.45%; pursuant to relevant legal regulations, the corporate income tax withheld and paid on behalf based on a rate of 10% was US\$13,170,833.33, according to the tax rate of 10%.

For the implementation plan for the initial distribution of dividends for Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company.

The above dividend was paid in cash on March 29, 2018.

5. Redemption or Conversion of Offshore Preference Shares

During the reporting period, no redemption or conversion occurred for the Bank's Offshore Preference Shares.

6. Resumption of voting Rights for Offshore Preference Shares

During the reporting period, no resumption of voting rights occurred for the Bank's Offshore Preference Shares.

7. Accounting Policies 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 Differentiating the 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 of the Bank meet the requirements for being accounted as equity instruments and will be accounted as equity instruments.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

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

As at the end of the reporting period, the composition of the Board of Directors, the Board of Supervisors and the Senior Management was as follows:

The Board currently comprises 13 Directors, including 3 executive Directors, namely Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun, and 4 non-executive Directors, namely Ms. Gao Qinrong, Mr. Hu Tiangao, Mr. Zhu Weiming and Ms. Lou Ting, and 6 independent non-executive Directors, namely Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu.

Among the members of the fifth session of the Board, the positions of Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng, Mr. Xia Yongchao, Mr. Zhou Zhifang and Mr. Wang Guocai will be effective from the ratification of their eligibility by CBIRC. Before the eligibility of the new independent non-executive Directors is rectified by CBIRC, the former independent non-executive Director Mr. Jin Xuejun will continue to hold his position.

The Board of Supervisors currently comprises 11 Supervisors, including 3 shareholder representative Supervisors, namely Mr. Yu Jianqiang, Mr. Huang Haibo and Mr. Ge Meirong, 4 employee representative Supervisors, namely Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Jiang Rong, and 4 external Supervisors, namely Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Ms. Cheng Huifang.

The Senior Management comprises 7 members, namely Mr. Xu Renyan, Mr. Zhang Changgong, Mr. Xu Manxuan, Mr. Wu Jianwei, Mr. Liu Long, Mr. Zhang Rongsen and Mr. Jiang Yulin.

In addition, the positions of the Senior Management newly appointed, namely Mr. Liu Guishan, Mr. Chen Haiqiang, Mr. Luo Feng, Mr. Sheng Hongqing, Mr. Song Shizheng and Mr. Jing Feng will be effective from the ratification of their eligibility by CBIRC.

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

During the reporting period, change of Directors was as follows:

Due to change in his work commitments, Mr. Liu Xiaochun resigned as an executive Director, the vice chairman and a member of the Strategic Committee of the Board of the Bank, and a member of the Inclusive Finance Development Committee, with effect from April 18, 2018.

On June 27, 2018, members for the new session of the Board of the Bank were elected, due to the expiry of the term of office of the 4th session of the Board, and Mr. Wang Mingde, Ms. Wang Yibing and Ms. Shen Xiaojun ceased to act as non-executive Directors of the Bank; Mr. Jin Xuejun ceased to act as an independent non-executive Director of the Bank. Mr. Huang Zhiming, Mr. Wei Dongliang, Mr. Huang Xufeng and Mr. Xia Yongchao acted as non-executive Directors of the Bank, and Mr. Zhou Zhifang and Mr. Wang Guocai served as independent non-executive Directors of the Bank. The qualifications of the Directors newly appointed are subject to approval of the regulatory authority.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Mr. Huang Zhiming is currently a non-executive director of the Company, with a master's degree. Mr. Huang acted as secretary to Senior Management, project leader of the No.2 Investment Department, deputy office director and director of the General Manager Office in Zhejiang Provincial Financial Development Company; chairman of the Board of Supervisors of Zhejiang Nongdu Agricultural Products Co., Ltd.; supervisor of Wuchan Zhongda; and general manager of the Risk Compliance Department, the person in charge of the Human Resource Department and office director at Zhejiang Provincial Financial Holdings Co., Ltd.. He currently serves as member of the Party Committee, employee director, general manager of the Financial Management Department of Zhejiang Provincial Financial Holdings Co., Ltd., chairman of the Board of supervisors of Zhejiang Industry Fund, executive supervisor of Zhejiang Guarantee Group, director of Caitong Securities Co., Ltd. (財通證券股份有限公司) and director of Yongan Futures Co., Ltd..

Mr. Wei Dongliang is currently a non-executive director of the Company, with a master's degree, as well as an electrical engineer with professional qualification of business administration economy (intermediate). Mr. Wei served as the office secretary of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司); assistant to general manager, vice general manager and member of party committee of Zhejiang Zheneng Lanxi Power Generation Co., Ltd. (浙江浙能蘭溪發電有限責任公司); vice general manager and member of party committee of Zhejiang Province Water Conservancy and Hydropower Investment Group Co., Ltd. (浙江省水利水電投資集團有限公司); vice director and director of asset operation department of Zhejiang Provincial Energy Group Company Ltd.; director and vice chairman of Qianjiang Water Resources Development Co., Ltd. (錢江水利開發股份有限公司); and director and vice chairman of Zheshang Property and Casualty Insurance Company Limited (浙商財產保險股份有限公司). He currently works as general manager and member of party committee of Zheneng Capital Holding Co., Ltd., and general manager of Zheneng Equity Investment Fund Management Co., Ltd..

Mr. Huang Xufeng is currently a non-executive director of the Company, with a master's degree. Mr. Huang had held the posts of senior staff member of the Market Operation and Coordination of the Ministry of Commerce; person-in-charge at the research division of the Special Commissioner's Office in Hangzhou of the Ministry of Commerce; assistant general manager of HXFB Financial & Investment Management Co., Ltd.; assistant general manager and general manager of investment banking division of ABC International (China) Investment Co., Ltd.; and deputy general manager of the Investment Center of Anbang Insurance Group. Mr. Huang now serves as the deputy general manager of Anbang Asset Management Co., Ltd. and the general manager of the Investment Management Department of Anbang Insurance Group.

Mr. Xia Yongchao is currently a non-executive director of the Company. He is a senior economist, with a MBA degree. Mr. Xia had held the posts of secretary of Shaoxing Yongli Industrial Corporation; manager of the Treasury Department of Zhejiang Yongli Industry Group Co., Ltd.; director of the polyester factory of Zhejiang Yongli Group; and chairman of Shaoxing Motor Mart Co., Ltd.. Mr. Xia now serves as the deputy general manager of Zhejiang Yongli Industry Group Co., Ltd.; the deputy chairman of Sinatay Life Insurance Co., Ltd.; the chairman of Zhejiang Lingyan Capital Management Co., Ltd.; and a director of Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd..

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Mr. Zhou Zhifang is currently an independent non-executive director of the Company. He is a senior economist, with a bachelor's degree. Mr. Zhou had held the posts of deputy unit chief at People's Bank of China, Jiangshan Sub-branch; deputy unit chief at Industrial and Commercial Bank of China, Jiangshan Sub-branch; director at the business department and the savings department, vice president, member of the party committee, leader of the discipline inspection team, deputy secretary of the party committee, vice president (in charge), secretary of the party committee and president of Industrial and Commercial Bank of China, Quzhou Branch; vice president and member of the party committee of Industrial and Commercial Bank of China, Jiangxi Branch; vice president, member of the party committee, general manager and secretary of the party committee of the business department of Industrial and Commercial Bank of China, Guangdong Branch; president and secretary of the party committee of Industrial and Commercial Bank of China, Ningbo Branch; director of Shanghai Branch of the Internal Audit Bureau of Industrial and Commercial Bank of China; and senior expert (at president level) of Industrial and Commercial Bank of China, Zhejiang Branch, during which he acted as leader of the third inspection team in the head office of Industrial and Commercial Bank of China. Mr. Zhou retired in 2016.

Mr. Wang Guocai is currently an independent non-executive director of the Company. He is a senior economist, with a bachelor's degree. Mr. Wang had held the posts of vice president and president of Industrial and Commercial Bank of China, Yuhuan Sub-branch; president of Industrial and Commercial Bank of China, Wenling Sub-branch; vice president and president at Industrial and Commercial Bank of China, Taizhou Branch; and expert of Industrial and Commercial Bank of China, Zhejiang Branch. Mr. Wang retired in 2016.

During the reporting period, change of Supervisors was as follows:

On May 10, 2018, the Bank convened a meeting of employees' representatives, at which Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Jiang Rong were elected as employee Supervisors for the 5th Session of the Board of Supervisors, with a term of three years effective from June 27, 2018, on which the 5th Session of the Board of Supervisors was elected at the 2017 annual general meeting. Meanwhile, Mr. Zhang Rulong and Mr. Ge Lixin, both were employee Supervisors for the 4th Session of the Board of Supervisors, retired upon the expiry of their term of office.

On June 27, 2018, the Bank convened the 2017 annual general meeting, at which Mr. Yu Jianqiang, Mr. Huang Haibo and Mr. Ge Meirong were elected as shareholder Supervisors and Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Ms. Cheng Huifang as external Supervisors for the 5th session of the Board of Supervisors. Meanwhile, Mr. Jiang Zihua, external Supervisor of the Bank, retired upon the expiry of his 6-year term of office. The 5th session of the Board of Supervisors comprised shareholder Supervisors, external Supervisors and employee Supervisors who have been elected on democratic basis by the employees.

Mr. Huang Haibo, shareholder representative Supervisor of the Company, holds a university degree and is an accountant. Mr. Huang used to work as a financial accountant in Zhejiang Rifa Textile Machinery Co., Ltd., financial officer in Shanghai Rifa Digital System Co., Ltd., financial manager and financial director in Zhejiang RIFA Holding Group Co., Ltd.. Mr. Huang is now the vice president and chief financial officer in Zhejiang RIFA Holding Group Co., Ltd..

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Mr. Ge Meirong, shareholder representative Supervisor of the Company, holds a university degree and is a senior economist. He used to work as secretary of the Youth League Committee of Wanghua Town, Shaoxing County, executive secretary of the district office in Pingshui District, Shaoxing County, agricultural assistant in Hengxi Township, Shaoxing County, standing committee member of the Youth League Committee, head of the Agro-industrial Department, deputy secretary of the Youth League Committee, member of the Party Committee, secretary of the Youth League Committee, secretary of the Party Committee in Shaoxing County, deputy secretary of the Party Committee in Qianqing Town, Shaoxing County, deputy secretary of the Party Committee and mayor of Keqiao Town, Shaoxing County, secretary of the Party Committee and director of the Working Committee of the People's Congress of Keyan Street, Shaoxing County, secretary of the Party Committee and director of the Working Committee of the People's Congress of Keqiao Street, Shaoxing County, director and secretary of the Party Committee of Shaoxing County Economic and Trade Bureau, secretary of the Party Committee and director of the Housing Demolition Management Office of Shaoxing County, director of the Urban Village Transformation Office of Shaoxing County and deputy office director of the People's Government of Shaoxing County, secretary of the Party Working Committee of Huashe Street, Shaoxing County, deputy head of the United Front Work Department of the CPC Shaoxing County Committee, secretary of the Party Committee at the Industry & Commerce Association of Shaoxing County, director of the Ethnic and Religious Affairs Bureau of Shaoxing County and deputy secretary of the Party Committee and director of the Statistics Bureau of Keqiao District (Shaoxing County), secretary of the Party Committee and director of the Statistics Bureau of Keqiao District, Shaoxing City, general manager of Shaoxing Natural Gas Investment Co., Ltd., secretary of the Party Committee, chairman and general manager of Transport Investment and Construction Group Co., Ltd. in Keqiao District, Shaoxing City. Currently, he works as chairman of Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd. as well as secretary of the party committee and chairman of Zhejiang China Light & Textile Industrial City Group Co., Ltd..

Mr. Chen Zhongwei, employee Supervisor of the Company, holds a university degree and is an economist. Mr. Chen used to work as chief of the business and system sections in the credit division at Industrial and Commercial Bank of China, Zhejiang Branch; general manager of the risk management department and the corporate department at China Everbright Bank, Hangzhou Branch; risk director (assistant to president) and member of the party committee at China Everbright Bank, Shanghai Branch; risk director (vice president) and member of the party committee at China Everbright Bank, Suzhou Branch; as well as deputy general manager of the credit review department of the Bank (in charge of relevant work). Mr. Chen currently works as general manager of the internal control, compliance and legal department at the Bank.

Mr. Jiang Rong, employee Supervisor of the Company, holds a university degree and is an accountant. Mr. Jiang used to work as an assistant to division chief and deputy division chief at the finance division in Shanghai Electric Tool Research Institute of the Ministry of Machine-Building and Electronics Industry, assistant to division chief, deputy division chief, division chief (back-up cadre for director generals at bureau level) at the CNAO's Shanghai Resident Office, audit head and general manager of the audit department at Dazhong Insurance Co., Ltd.. Mr. Jiang currently works as general manager of the audit department, director of the discipline inspection office, member of the discipline inspection commission and member of the working committee at the head office of the Bank.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

During the reporting period, change of the Senior Management was as follows:

On March 15, 2018, Mr. Ye Jianqing resigned and ceased to act as a vice president of the Company due to other work commitments.

Mr. Liu Xiaochun resigned as president of the Company due to work changes. Such resignation was considered at the first extraordinary meeting of the 4th session of the Board of the Company of 2018 and is effective from April 18, 2018.

On April 18, 2018, the appointment of Mr. Xu Renyan as president of the Company was approved at the first extraordinary meeting of the 4th session of the Board of the Company for 2018.

On May 7, 2018, it was approved at the thirteenth meeting of the 4th Session of the Board of the Company that Mr. Liu Guishan was appointed as the assistant to president and the chief risk officer of the Company, Mr. Chen Haiqiang and Mr. Luo Feng as the assistants to president, Mr. Song Shizheng as the chief information officer, Mr. Jing Feng as the chief finance officer of the Company. The competency and qualifications of the above Senior Management are subject to the approval of the CBIRC, upon which, they will perform their duties.

On June 27, 2018, it was approved at the first meeting of the 5th session of the Board of the Company that Mr. Sheng Hongqing was engaged as assistant to president of the Company. His competency and qualifications as a Senior Management are subject to the approval of the CBIRC, upon which, he will perform his duties.

Mr. Liu Guishan currently serves as the assistant to president, chief risk officer (proposed) and general manager of credit review department of the Company. He is a senior accountant, with a bachelor's degree. Mr. Liu worked as the deputy head of deposit department (section chief level) and principal staff member of planning department in Bank of China, Xining Branch, deputy head of financial and accounting department in Bank of China, Xijing Branch, deputy director of Beida Avenue Office in Bank of China, Xijing Branch, vice president at Bank of China, Xi'an Branch, Beida Avenue Sub-branch, director of credit card department and business department in Bank of China, Xi'an Branch, and vice president (in charge of relevant work in the absence of the president) and president at Bank of China, Jiefang Road Sub-branch; the assistant to president, member of the party committee, vice president, secretary of the commission for discipline inspection at China CITIC Bank, Xi'an Branch, and leader of preparation team of China CITIC Bank, Hohhot Branch; the deputy general manager of Xi'an business department in China Zheshang Bank, member of the party committee, risk monitoring officer and vice president, secretary of the commission for discipline inspection, deputy secretary of the party committee, vice president (in charge of relevant work in the absence of the president), secretary of the party committee and president in China Zheshang Bank, Xi'an Branch.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Mr. Chen Haiqiang currently serves as the assistant to president (proposed) of the Company and secretary of the party committee and president of Hangzhou Branch of the Company. He is a senior economist, with a master's degree. Mr. Chen worked as deputy principal staff member at China Development Bank, Zhejiang Branch, deputy director (in charge of relevant work in the absence of the director) of Ningbo Beilun Banking Office in China Merchants Bank, president of China Merchants Bank, Ningbo Beilun Branch, member of the party committee, assistant to president, and vice president in China Merchants Bank, Ningbo Branch, secretary of the party committee and president in China Zheshang Bank, Ningbo Branch.

Mr. Luo Feng currently serves as the assistant to president (proposed) of the Company and general manager of financial market department of the Company. He holds a doctoral degree. Mr. Luo worked as manager assistant of financial market research center of treasury department, manager assistant of business management center, deputy manager and manager of business management center (research center) of treasury department, risk monitoring officer and general manager assistant of treasury department, manager of risk management center, deputy general manager of treasury department and deputy general manager (in charge of relevant work in the absence of the general manager) in head office of China Zheshang Bank.

Mr. Sheng Hongqing currently serves as the assistant to president (proposed) of the Company. He holds a doctoral degree. Mr. Sheng worked as the deputy head and head of financial engineering division of treasury department in head office of China Everbright Bank, and the assistant to president and chief investment officer of Huishang Bank.

Mr. Song Shizheng currently serves as the chief information officer (proposed) of the Company and the general manager of financial technology department of the Company. He is a senior engineer, with a bachelor's degree. Mr. Song acted as the deputy section head, section head of technology department, deputy general manager of computer center, deputy general manager (in charge of relevant work in the absence of the general manager) of customer service center in Industrial and Commercial Bank of China, Zhejiang Branch, deputy general manager of accounting technology department and general manager of information technology department in head office of China Zheshang Bank.

Mr. Jing Feng currently works as the chief financial officer (proposed) of the Company and the general manager of planning and finance department (asset and liability management department) of the Company. He holds a master's degree. Mr. Jing worked as the deputy general manager and general manager of planning and finance department of China Minsheng Bank, Suzhou Branch, finance specialist of corporate financial business department of China Minsheng Bank, deputy general manager of Jiangsu business department of China Zheshang Bank, vice president and member of the party committee of China Zheshang Bank, Nanjing Branch, deputy general manager (in charge of relevant work in the absence of the general manager) and general manager of finance & accounting department, and general manager of asset and liability management department in head office of China Zheshang Bank.

(III) CHANGE OF DIRECTORS AND SUPERVISORS

Mr. Xu Renyan, executive Director of the Company, will work as president of the Company and ceases to be vice president of the Company or chairman of Zheyin Financial Leasing.

Ms. Gao Qinrong, non-executive director of the Company, ceases to be a director of Zhejiang Hengyi Group Co., Ltd..

Mr. Zhu Weiming, non-executive director of the Company, will serve as director of Ningbo Commerce Bank Co. Ltd. and deputy chairman of the Board of Directors of Donghai Marine Insurance Company Limited.

Mr. Dai Deming, independent non-executive Director of the Company, will serve as independent non-executive director of Power Construction Corporation of China and ceases to be independent non-executive director of Beijing Capital Development Co., Ltd..

Mr. Zheng Jindu, independent non-executive Director of the Company, is now serving as a member of the Zhejiang Provincial CPPCC.

Mr. Yuan Xiaoqiang, external Supervisor of the Company, who served as a member of Standing Committee of Zhejiang Province People's Congress, ceased to act as a member of the Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference.

(IV) EMPLOYEES

As at the end of the reporting period, we had 13,417 employees in total (including non-permanent personnel of the Bank), representing an increase of 203 compared with the end of last year. Based on the types of the posts, we have 5,971 marketing staff, 1,549 counter personnel and 5,897 mid-office and back-office personnel. Based on educational background, 2,651 obtained post-graduate degree or above (including 66 with doctorate degree), 9,248 obtained bachelor degree, and 1,518 obtained associate degree or below. All of our employees are covered by basic social pension insurance. As at the end of the reporting period, we had 33 retirees.

(V) EMPLOYEE REMUNERATION POLICY

The Bank's remuneration policy is guided by its growth strategy and the people-oriented concept. By adhering to the principle of marketization and by implementing comprehensive benchmarking management, the Bank tries to put in place a sound post-based remuneration management mechanism as well as a mechanism under which remuneration is determined by taking into account both individual performance and organizational performance. Employee remuneration is mainly driven by capabilities and performance and the Bank strives to set up a market-based remuneration system, which would reflect internal fairness and external competitiveness, promote the co-growth of employees and employers, focus equally on incentives and restraints and bases remuneration on post value.

The Bank's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by Bank to its branches is linked with the realization status of overall benefits by such branches and takes into account various kinds of risk factors so that the entire Bank would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and allocation methods are applied to different types of employees. For employees in the risk and compliance department, their remuneration is determined by taking into account their value contribution, abilities to perform duties, performance and other factors, such remuneration is not directly related to the business under their regulation and remains independent of other business segments.

(VI) EMPLOYEES TRAINING

Trainings offered by the Bank is centered on our operation and development strategy with the aims of improving professional capabilities and performance. In addition to the all-staff training, we also attach high importance to the training of core, key and special talents by offering a variety of trainings, which aims to comprehensively improve management abilities and professional capabilities of our employees. During the reporting period, the Bank held 1,149 training courses in total with 87,722 attendances.

INFORMATION ON 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	1,858
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	48
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	11	554
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	19	899
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	9	405
	Hefei Branch	Block A16, Financial Harbour Centre at the junction of Huizhou Avenue and Yangtze River Road, Baohe District, Hefei	0551-65722016	230611	1	120
	Hangzhou Branch	No. 736, Jianguo North Road, Hangzhou	0571-87330733	310004	45	2,181
	Ningbo Branch	No. 739, Zhongxing Road, Jiangdong District, Ningbo	0574-81855678	315040	15	623
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	11	482
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166066	312030	9	426
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	6	262
	Zhoushan Branch	Pavilion 2, No. 111, Haiyu Road, Lincheng Town, Zhoushan	0580-2260302	316021	2	106
Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	9	687
	Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271379	300204	10	542
	Shenyang Branch	No. 56, Qingnian main street, Shenhe District, Shenyang	024-31259003	110014	6	273
	Jinan Branch	No. 185, Heihuquan West Road, Lixia District, Jinan, Shandong	0531-80961706	250011	12	688
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	4	397
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, High-tech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	0755-82760666	518054	11	457
Midwestern China	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277306	450008	1	159
	Changsha Branch	Unit 118-29, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	0731-82987566	410018	1	92
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430000	2	220
	Chongqing Branch	Xingguang Building Block A, No. 1, Xingguang Avenue, New Liang Jiang Zone, Chongqing	023-88280800	401121	8	451
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85579955	610023	12	489
	Xi'an Branch	No. 16, Fenghui South Road, High-tech District, Xi'an	029-61833333	710075	10	516
	Lanzhou Branch	No. 308, Baiyin Road, Chengguan District, Lanzhou	0931-8172110	730030	8	438
	Overseas	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	852-28018282	999077	1
Total	-	-	-	-	225	13,417

(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

On March 29, 2018, the Company additionally issued 759,000,000 ordinary H shares as fully paid in Hong Kong dollars, at a price of HK\$4.80 per share. The total amount of funds raised was HK\$3,643,200,000, and the net funds, after deducting the issuance expenses, were RMB2,914,544,841, which were all used to replenish the core tier 1 capital as of June 30, 2018.

Before the reporting period, the Company completed its initial public offering of H Shares in March 2016 and issued Offshore Preference Shares in March 2017. According to the usage disclosed, the proceeds raised were used for supplementing the Company's capital to meet the needs for sustained growth of our business as of June 30, 2018.

(III) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in various legal litigations/arbitrations in the ordinary course of business, most of which are filed by the Company itself for the purpose of recovering non-performing loans. The above litigations/arbitrations also include those arising as a result of other disputes. As at the end of the reporting period, there were totally seven pending litigations/arbitrations (excluding actions of opposition to execution) where the Company was a defendant, and the total value of these 7 litigations/arbitrations was RMB3.28 million. The Company expects that such pending litigations/arbitrations will not have material or adverse impact on 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 better terms in favor of the Company). Such transactions constitute 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.

SIGNIFICANT EVENTS

Details of related party transactions entered into by the Company for the half year ended June 30, 2018 are set out in “Notes to Condensed Interim Consolidated Financial Information – 41 Related Party Transactions”.

Saved as disclosed above, no related party transactions set out in “Notes to Condensed Interim Consolidated Financial Information – 41 Related Party Transactions” that would fall within the definition of “connected transactions” or “continuing connected transaction” under 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

1. Material 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 which falls outside the normal business scope of a bank.

2. 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 CBIRC, there were no other significant guarantees that shall 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 any 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 at 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 and the Supervisors, 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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 91 to 181, 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 June 30, 2018 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 24, 2018

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Unaudited	
		For the six months ended June 30,	
		2018	2017
Interest income	4	34,570,135	30,070,785
Other interest income	4	990,551	N/A
Interest expense	4	(22,935,970)	(17,686,168)
Net interest income		12,624,716	12,384,617
Fee and commission income	5	2,593,782	5,238,466
Fee and commission expense	5	(255,834)	(148,718)
Net fee and commission income		2,337,948	5,089,748
Net trading gains/(losses)	6	2,768,779	(222,200)
Net investment income	7	575,164	547,292
Other operating income	8	289,453	149,324
Operating income		18,596,060	17,948,781
Operating expenses	9	(5,571,866)	(5,431,360)
Impairment losses on assets	10	–	(5,207,078)
Expected credit losses	11	(5,078,476)	N/A
Operating profit		7,945,718	7,310,343
Profit before income tax		7,945,718	7,310,343
Income tax expense	12	(1,436,654)	(1,708,126)
Net profit for the period		6,509,064	5,602,217
Net profit attributable to:			
Shareholders of the Bank		6,485,825	5,613,405
Non-controlling interests		23,239	(11,188)
		6,509,064	5,602,217
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	13	0.34	0.31

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 June 30,	
	Note	2018	2017
Net profit for the period		6,509,064	5,602,217
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		N/A	(830,263)
Fair value changes on financial assets at fair value through other comprehensive income	33	279,712	N/A
Expected credit losses of financial assets at fair value through other comprehensive income	33	(53,971)	N/A
Exchange difference on translation of foreign financial statements	33	278,375	–
Related income tax impact	33	(56,435)	207,566
Total other comprehensive income, net of tax		447,681	(622,697)
Total comprehensive income for the period		6,956,745	4,979,520
Total comprehensive income attributable to:			
Shareholders of the Bank		6,933,506	4,990,708
Non-controlling interests		23,239	(11,188)
		6,956,745	4,979,520

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	June 30, 2018 Unaudited	December 31, 2017 Audited
ASSETS			
Cash and balances with central bank	14	131,697,079	154,091,440
Precious metal		7,068,173	12,382,513
Due from banks and other financial institutions	15	84,029,429	71,432,438
Financial assets at fair value through profit or loss	16	134,500,154	46,344,516
Derivative financial assets	17	7,886,170	4,554,086
Loans and advances to customers	18	770,709,631	649,816,717
Financial assets at fair value through other comprehensive income	19	50,770,445	N/A
Financial assets measured at amortised cost	20	400,969,294	N/A
Financial assets	21		
– Available-for-sale		N/A	127,898,959
– Held-to-maturity		N/A	91,562,790
– Debt instruments classified as receivables		N/A	343,222,781
Property, plant and equipment	22	6,862,096	6,602,703
Deferred income tax assets	23	7,748,402	7,366,808
Other assets	24	29,930,811	21,476,351
Total assets		1,632,171,684	1,536,752,102
LIABILITIES			
Due to banks and other financial institutions	25	360,571,545	356,805,618
Financial liabilities at fair value through profit or loss	26	5,594,407	5,615,590
Derivative financial liabilities	17	8,129,175	5,297,863
Customer deposits	27	905,959,253	860,619,457
Income tax payable		1,523,542	2,891,891
Provisions		3,165,097	–
Debt securities issued	28	217,716,561	190,551,983
Other liabilities	29	33,353,866	25,281,946
Total liabilities		1,536,013,446	1,447,064,348

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	June 30, 2018 Unaudited	December 31, 2017 Audited
EQUITY			
Share capital	30	18,718,697	17,959,697
Other equity Instruments	31	14,957,664	14,957,664
Capital reserve	30	22,130,353	19,974,808
Surplus reserve	32	4,882,975	4,882,975
Statutory general reserve	32	18,461,991	17,243,730
Investment revaluation reserve	33	150,329	(1,553,817)
Retained earnings		15,339,872	14,729,579
Equity attributable to shareholders of the Bank		94,641,881	88,194,636
Non-controlling interests	35	1,516,357	1,493,118
Total equity		96,158,238	89,687,754
Total liabilities and equity		1,632,171,684	1,536,752,102

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 on August 24, 2018 and were signed on its behalf by:

Shen Renkang

Legal Representative, Chairman of Board

Xu Renyan

Executive Director, 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 (Note 30)	Other equity instrument (Note 31)	Capital reserve (Note 30)	Surplus Reserve (Note 32)	Statutory general reserve (Note 32)	Investment revaluation reserve (Note 33)	Retained earnings	Non-controlling interests (Note 35)	
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,729,579	1,493,118	89,687,754
Impact on accounting policy changes	-	-	-	-	-	1,256,465	(1,475,093)	-	(218,628)
Balance at January 1, 2018	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(297,352)	13,254,486	1,493,118	89,469,126
Net profit for the period	-	-	-	-	-	-	6,485,825	23,239	6,509,064
Other comprehensive income for the period	-	-	-	-	-	447,681	-	-	447,681
Total comprehensive income	-	-	-	-	-	447,681	6,485,825	23,239	6,956,745
Contribution of shareholders	759,000	-	2,155,545	-	-	-	-	-	2,914,545
Appropriation to statutory general reserve	-	-	-	-	1,218,261	-	(1,218,261)	-	-
Cash dividends	-	-	-	-	-	-	(3,182,178)	-	(3,182,178)
Balance at June 30, 2018	18,718,697	14,957,664	22,130,353	4,882,975	18,461,991	150,329	15,339,872	1,516,357	96,158,238
Balance at January 1, 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 period	-	-	-	-	-	-	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 dividends	-	-	-	-	-	-	(3,053,148)	-	(3,053,148)
Balance at June 30, 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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Note	Unaudited	
		For the six months ended June 30,	
		2018	2017
Cash flows from operating activities:			
Profit before income tax		7,945,718	7,310,343
Adjustments:			
Depreciation and amortisation	9	321,102	144,981
Expected credit losses on loans	11	5,078,476	N/A
Impairment losses on loans	10	N/A	3,117,041
Impairment losses on other assets	10	N/A	2,090,037
Net gains on de-recognition of financial investments		(575,164)	(547,292)
Fair value changes in financial assets at fair value through profit or loss and derivatives		(1,183,377)	347,039
Interest income from financial investments		(12,265,483)	(14,050,959)
Interest expense from debt securities issued	4	4,700,175	2,264,318
Net change in operating assets and operating liabilities:			
Net decrease in restricted deposit balances with central bank		12,386,922	569,107
Net (increase)/decrease in due from banks and other financial institutions		(3,597,546)	17,337,878
Net increase in financial assets at fair value through profit or loss		(19,891,405)	(56,319,577)
Net increase in loans and advances to customers		(123,644,606)	(71,997,880)
Net increase in other operating assets		(21,058,454)	(17,095,650)
Net increase/(decrease) in due to banks and other financial institutions		3,765,927	(35,084,091)
Net increase in customer deposits		45,339,796	66,823,837
Net increase/(decrease) in other operating liabilities		15,234,127	(7,156,737)
Cash used in operating activities before tax		(87,443,792)	(102,247,605)
Income tax paid		(3,170,156)	(3,537,537)
Net cash used in operating activities		(90,613,948)	(105,785,142)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

		Unaudited	
		For the six months ended June 30,	
	Note	2018	2017
Cash flows from investing activities:			
Purchase of property and equipment, intangible assets and other long-term assets		(756,547)	(903,236)
Interest received from financial investments		14,321,068	13,904,581
Proceeds from disposal and redemption of financial investments		689,243,919	760,411,084
Purchase of financial investments		(644,737,931)	(740,355,163)
Net cash generated from investing activities		58,070,509	33,057,266
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		2,914,545	–
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		157,754,578	79,135,972
Repayment of debt securities		(130,590,000)	(25,585,250)
Interest paid on debt securities issued		(4,700,175)	(2,264,318)
Dividends paid on ordinary shares		(846,089)	(6,833)
Net cash generated from financing activities		24,532,859	67,692,023
Effect of exchange rate changes on cash and cash equivalents		200,170	(462,803)
Net decrease in cash and cash equivalents		(7,810,410)	(5,498,656)
Cash and cash equivalents at beginning of the period		58,589,742	50,177,326
Cash and cash equivalents at end of the period	40	50,779,332	44,678,670
Net cash flows from operating activities including:			
Interest received		24,996,697	15,886,869
Interest paid		(18,167,195)	(15,077,288)

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

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 July 26, 2004 with the approval from China Banking Regulatory Commission. The Bank was listed on The Stock Exchange of Hong Kong Limited on March 30, 2016.

As at June 30, 2018, the Bank has established 224 branch outlets in 16 provinces (municipalities) in Mainland China, including 53 branches (24 of them are tier-one branches), one branch-level specialised institution and 170 sub-branches.

Zhejiang Zheyin Financial Leasing Co., Ltd. ("Zheyin Leasing") was established on January 18, 2017 with a registered capital of RMB3,000,000 thousand. Since the Bank has control over Zheyin Leasing, the Bank has included it in the consolidated scope of the report. The Bank and its subsidiary, Zheyin Leasing (Note 3), 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 China Banking and Insurance Regulatory Commission.

The interim financial information were approved by the Bank's Board of Directors on August 24, 2018.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 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 December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies

Standards and amendments that are adopted by the Group at January 1, 2018

Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	IASB Annual Improvements (2014-2016 cycle)
IFRS 15	Revenue from contracts with customers
IFRIC 22	Foreign currency transactions and advance consideration
IFRS 9	Financial instruments

The adoption of the revised International Financial Reporting Standards, with the exception of International Financial Report Standard 9 “Financial instruments” (“IFRS 9”), have no significant impact on the Group in 2018.

IFRS 9 Financial instruments

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (“IASB”) in July 2014 with a date of transition of January 1, 2018, which resulted in adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures are consistent with those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets for the Group. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 “Financial Instruments: Disclosures”.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. For details of the specific accounting policies applicable to the new financial instrument accounting standards in the current period, are discussed as follows:

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss ("ECL") allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees for the loan. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate cashflow discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) **Financial instruments** *(continued)*

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred profit or loss in day one is determined individually. It is either amortised over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments *(continued)*

Financial assets

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Group's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) **Financial instruments** *(continued)*

Debt instruments (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and the interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains or losses on financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments *(continued)*

Debt instruments (continued)

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at fair value through profit or loss.

Solely Payments of Principal and Interest (the "SPPI test"): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and do not occurred during the period.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) **Financial instruments** *(continued)*

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, the gains and losses from the change in fair value are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECL (and reversal of ECL) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the statement of profit or loss.

Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises an ECL allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments *(continued)*

Modification of loans contract

The Group sometimes renegotiates or otherwise modifies the contraction of loans to customers resulting in the changes of cash flow. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- (i) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- (ii) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- (iii) Significant extension of the loan term when the borrower is not in financial difficulty;
- (iv) Significant change in the interest rate;
- (v) Change in the currency the loan is denominated in;
- (vi) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification of gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

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For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) **Financial instruments** *(continued)*

Derecognition other than on a modification of contract

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group, if the transferred asset is measured at fair value.

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For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments *(continued)*

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.

When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies and please refer to Note 2.2.(2).

- Financial guarantee contracts and loan commitments, please refer to Note 2.2.(2).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(1) Financial instruments *(continued)*

Financial liabilities (continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants for the borrower are also taken into consideration. If an exchange of contract or modification of terms is accounted for as an extinguishment and derecognition of relevant financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(2) **Financial guarantee contracts and loan commitments**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract. Such financial guarantees include the loans provided by banks, financial institutions, overdrafts and other banking facilities guarantee.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the ECL allowance (calculated as described in note 2.2.(1)); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance (calculated as described in note 2.2.(1)). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the ECL allowance is recognised as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment are recognised together with the ECL allowance for the loan. Provided that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as provisions.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(3) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	December 31,			January 1,
	2017	Reclassifications	Remeasurements(i)	2018
Assets				
Cash and balances with central banks	154,091,440	-	-	154,091,440
Due from banks and other financial institutions	71,432,438	-	(6,552)	71,425,886
Financial assets – fair value through profit or loss	46,344,516	66,979,530	-	113,324,046
Loans and Advances to customers	649,816,717	-	2,044,397	651,861,114
Financial assets – fair value through other comprehensive income	-	35,476,815	-	35,476,815
Financial assets – available-for-sale	127,898,959	(127,898,959)	-	-
Financial assets measured at amortised cost	-	460,228,185	774,441	461,002,626
Financial assets – Held-to-maturity	91,562,790	(91,562,790)	-	-
Financial assets – Debt instruments classified as receivables	343,222,781	(343,222,781)	-	-
Deferred tax assets	7,366,808	-	72,876	7,439,684
Liabilities				
Provisions	-	-	3,103,790	3,103,790
Shareholder's equity				
Other comprehensive income	(1,553,817)	-	1,256,465	(297,352)
Retained earnings	14,729,579	-	(1,475,093)	13,254,486

(i) Remeasurement includes expected credit losses and the change in the amount and the impact on income tax arising from the reclassification of the amortised cost measurement to the fair value measurement or the reclassification of the fair value measurement to the amortised cost measurement.

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For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 carrying amount	Reclassifications	Remeasurements	IFRS 9 carrying amount
<i>Ref</i>	December 31, 2017			January 1, 2018
Amortised Cost				
Cash and balances with central bank				
The amount of cash and balances with central bank	154,091,440			154,091,440
Due from banks and other financial institution				
The amount of due from banks and other financial institutions	71,432,438			
Subtraction: ECL allowance			(6,552)	
The amount of due from banks and other financial institutions				71,425,886
Loans and advances to customers				
The amount of loans and advances to customers	649,816,717			
Subtraction: Transfer to Loans and advances to customers – fair value through other comprehensive income		(22,637,478)		
Subtraction: ECL allowance for loans and advances to customers			2,068,625	
The amount of loans and advances to customers				629,247,864

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For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortised Cost <i>(continued)</i>					
Financial assets – Debt instruments classified as receivables					
The amount financial assets – Debt instruments classified as receivables		343,222,781			
Subtraction: Transfer to amortised cost (IFRS 9)	(e)		(343,222,781)		
The amount financial assets – Debt instruments classified as receivables					–
Financial assets – Held-to-Maturity					
The amount of financial assets – Held-to-Maturity		91,562,790			
Subtraction: Transfer to amortised cost (IFRS 9)	(e)		(91,562,790)		
The amount of financial assets – Held-to-Maturity					–
Financial assets – amortised cost					
The amount of financial assets – amortised cost		N/A			
Addition: From financial assets – Debt instruments classified as receivables (IAS 39)	(e)		343,222,781		
Addition: Financial assets – Held-to-Maturity (IAS 39)	(e)		91,562,790		
Addition: From financial assets – Available-for-sale (IAS 39)	(c)		25,442,614		
Subtraction: ECL allowance				(821,999)	
Remeasurements:				1,596,440	
The amount of financial assets – amortised cost					461,002,626
Total financial assets measured at amortised cost		1,310,126,166	2,805,136	2,836,514	1,315,767,816

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For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Fair value through profit or loss ("FVPL")				
Financial assets at fair value through profit or loss				
The amount of financial assets at fair value through profit or loss	46,344,516			
Addition: From financial assets – Available-for-sale (IAS 39)	(b)	66,979,530	–	
The amount of financial assets at fair value through profit or loss				113,324,046
Total financial assets at fair value through profit or loss	46,344,516	66,979,530	–	113,324,046
Fair value through other comprehensive income ("FVOCI")				
Financial assets – available-for-sale				
Opening balance under IAS 39	127,898,959			
Subtraction: Transfer to financial assets at fair value through profit or loss (IFRS 9)	(b)	(66,979,530)		
Subtraction: Transfer to financial assets at Fair value through other comprehensive income – equity instruments (IFRS 9)	(d)	(25,000)		
Subtraction: Transfer to financial assets at Fair value through other comprehensive income – debt instruments (IFRS 9)	(e)	(35,451,815)		
Subtraction: Transfer to measurements under amortised cost (IFRS 9)	(c)	(25,442,614)		
Closing balance under IFRS 9				–

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Fair value through profit or loss ("FVPL") <i>(continued)</i>					
Financial assets at Fair value through other comprehensive income – equity instruments					
Opening balance under IAS 39		N/A			
Addition: From financial asset available-for-sale (IAS 39)	(d)		25,000		
Closing balance under IFRS 9					25,000
Financial assets at Fair value through other comprehensive income – debt instruments					
Opening balance under IAS 39		N/A			
Addition: From available-for-sale (IAS 39)	(e)		35,451,815		
Less: ECL allowance				(61,027)	
Remeasurements: From amortised cost measured to fair value measured				61,027	
Closing balance under IFRS 9					35,451,815
Loans and advances to customers					
Opening balance under IAS 39		–			
Addition: From loans and advances to customers under amortised cost (IAS 39)	(a)		22,637,478		
Subtraction: ECL allowance				(45,883)	
Remeasurements: From amortised cost measured to fair value measured				21,655	
Closing balance under IFRS 9					22,613,250
Total financial assets measured at fair value through other comprehensive income		127,898,959	(69,784,666)	(24,228)	58,090,065
Total financial assets		1,484,369,641	–	2,812,286	1,487,181,927

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

The following explains how the Group applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(a) Discounted bills and Letters & Credit Negotiation

Because the business model of discounted bills and some L/C negotiation were assessed as held to collect the contractual cash flows and sell, the Group changed measurement from amortised cost method to FVOCI method. The amount before reclassification is RMB22,637,478 thousand, after the reclassification, the remeasured amount is RMB22,613,250 thousand.

(b) Fund investments and trust plans and asset management plans that do not pass the "solely payments of principal and interest" ("SPPI") test

The Group holds fund investments amounting to RMB57,018,238 thousand, and the trust plans and asset management plans that do not pass the SPPI test amounting to RMB9,961,293 thousand. The cashflow characteristics of these financial contracts do not meet SPPI requirement. Consequently, these financial assets are reclassified from financial assets available for sale to financial assets at fair value through profit or loss.

(c) Bond investments

The Group assessed its bond investments' business model. The Group concluded that a part of its bond investments' business model is to hold to collect the contractual cash flows. These bond investments, which amounted to RMB25,442,614 thousand, were previously classified as available-for-sale, and were reclassified as financial assets measured at amortised cost from the date of initial application.

For financial assets which have been reclassified to the amortised cost category, the following table shows their fair value at June 30, 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9:

	June 30, 2018
Reclassifications to amortised cost	
From available-for-sale (IAS 39 classification) to item above	
Fair value as at June 30, 2018	26,144,108
Fair value gain/(loss) that would have been recognised during the period if the financial assets had not been reclassified	701,494

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *(continued)*

(d) Designation of equity instruments at FVOCI

As permitted under IFRS 9, the Group has elected to irrevocably designate a small portfolio of non-trading equity securities (RMB25,000 thousand in total) at FVOCI, which were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

(e) Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9 as their previous categories under IAS 39 were “retired”, with no changes to their measurement basis:

- (i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as loans and receivables, held-to-maturity and now classified as measured at amortised cost.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

(5) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the allowance for impairment loss at December 31, 2017 in accordance with the IAS 39 incurred loss model to the new expected credit loss allowance with the IFRS 9 ECL model at January 1, 2018:

Measurement category	Allowance for impairment loss under		ECL allowance	ECL allowance/ Provisions under IFRS 9
	IAS 39	Reclassification		
Amortised cost				
Loans and advances to customers	23,062,217	-	(2,068,625)	20,993,592
Due from banks and other financial institutions	-	-	6,552	6,552
Financial assets – Debt instruments classified as receivables	3,968,473	(3,968,473)	-	-
Financial assets measured at amortised cost	-	3,968,473	821,999	4,790,472
Subtotal	27,030,690	-	(1,240,074)	25,790,616
At fair value through other comprehensive income				
Loans and advances to customers	-	-	45,883	45,883
Financial assets at fair value through other comprehensive income	-	-	61,027	61,027
Subtotal	-	-	106,910	106,910
Off Balance Sheet Items	-	-	3,103,790	3,103,790
Total	27,030,690	-	1,970,626	29,001,316

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 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 IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	January 1, 2019

Amendments to IFRS 10 and IAS 28

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

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

IFRIC 23

The IASB issued IFRIC 23 Uncertainty Over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group *(continued)*

IFRS 16

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

As at June 30, 2018, the Group has non-cancellable operating lease commitments of RMB4,605 million, see note 37. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may not need recognise relevant assets or liabilities because of short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group *(continued)*

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ('CSM') representing the unearned profit of the contract which is recognised over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.2 Principal accounting policies *(continued)*

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group *(continued)*

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

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

Amendments to IFRS 9

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

Except 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.3 Consolidated Financial Statements

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and total comprehensive income for the period not attributable to the Bank are recognised as non-controlling interest and total comprehensive income attributed to non-controlling interest and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively.

Unrealised profits or losses resulting from the Company selling assets to its subsidiaries are offset against the parent company's net profits. Unrealised profits or losses resulting from the subsidiaries selling assets to the Company are offset against net profits attributable to shareholders of the parent company and non-controlling interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and non-controlling interest based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Company or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective. The loss distributed to non-controlling shareholders of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the non-controlling shareholders' equity.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

2.4 Critical accounting estimates and judgments in applying accounting policies

The preparation of unaudited condensed consolidated interim financial information requires the 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 the 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 December 31, 2017 except the measurement of ECL.

The measurement of ECL

For financial assets measured at amortised cost and measured at fair value through other comprehensive income, a complex model and a large number of assumptions are used in the measurement of ECL. These models and assumptions relate to future macroeconomic conditions and the borrower's credit behaviour (e.g. the likelihood of customer default and corresponding losses).

The measurement of ECL in accordance with the requirements of accounting standards involves many significant judgments, such as:

- The criteria for judging a significant increase in credit risk;
- Choosing the appropriate model and assumptions for measuring ECL;
- Determine the number and relative weightings of forward-looking scenarios that are used in measuring ECL;
- Grouping financial instruments for the measurement of ECL, and classifying projects with similar credit risk characteristics into a portfolio.

For details of the above judgments and estimates, please refer to Note 2.2.(1).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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3 SUBSIDIARY

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

4 NET INTEREST INCOME

	For the six months ended June 30,	
	2018	2017
Interest income		
Balances with central bank	875,558	889,565
Due from banks and other financial institutions	1,381,323	1,065,863
Loans and advances to customers	20,047,771	12,783,142
Financial investments	12,265,483	14,815,149
Financial assets at fair value through profit or loss	N/A	517,066
Subtotal	34,570,135	30,070,785
Including: Interest income from impaired financial assets	43,718	34,237
Other similar income (i)	990,551	N/A
Interest expense		
Due to banks and other financial institutions	(9,383,275)	(8,300,745)
Customer deposits	(8,852,520)	(7,121,105)
Debt securities issued	(4,700,175)	(2,264,318)
Subtotal	(22,935,970)	(17,686,168)
Net interest income	12,624,716	12,384,617

- (i) Other interest income is income recognised by bond investments measured at fair value through profit or loss during the holding period.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

5 NET FEE AND COMMISSION INCOME

	For the six months ended June 30,	
	2018	2017
Fee and commission income		
Asset management business	862,239	3,913,577
Settlement business	407,016	183,428
Underwriting service	392,647	246,103
Custodian and other fiduciary service	285,522	219,292
Credit commitment	247,040	223,215
Agency service	207,239	178,828
Others	192,079	274,023
Total	2,593,782	5,238,466
Fee and commission expense	(255,834)	(148,718)
Net fee and commission income	2,337,948	5,089,748

6 NET TRADING GAINS/(LOSSES)

	For the six months ended June 30,	
	2018	2017
Net gains/(losses) from:		
Funds investment	1,757,709	122,734
Financial assets at fair value through profit or loss	756,297	(185,435)
Derivative financial instruments	151,462	(19,168)
Exchange differences	103,311	(140,331)
Total	2,768,779	(222,200)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

7 NET INVESTMENT INCOME

	For the six months ended June 30,	
	2018	2017
Net gains arising from financial assets – fair value through other comprehensive income	77,944	N/A
Net gains arising from financial assets under amortised cost	179,747	N/A
Net gains arising from financial assets – available-for-sale	N/A	164,225
Other gains	317,473	383,067
Total	575,164	547,292

8 OTHER OPERATING INCOME

	For the six months ended June 30,	
	2018	2017
Government grants	86,649	15,283
Operating lease income	20,829	–
Gains on disposal of fixed assets, intangible assets and other long-term assets	146	962
Other miscellaneous income	181,829	133,079
Total	289,453	149,324

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

9 OPERATING EXPENSES

	For the six months ended June 30,	
	2018	2017
Staff costs (i)	3,472,983	3,564,002
General and administrative expenses	1,191,498	1,345,559
Rental expenses	343,370	256,497
Depreciation of property, plant and equipment (Note 22)	237,913	84,914
Tax and surcharges	222,358	112,114
Amortisation of long-term prepaid expenses	55,314	36,736
Amortisation of intangible assets (Note 24(ii))	19,740	15,414
Amortisation of land use rights (Note 24(ii))	8,135	7,917
Donations	2,598	3,012
Others	17,957	5,195
Total	5,571,866	5,431,360

(i) Staff costs

	For the six months ended June 30,	
	2018	2017
Salaries and bonuses	2,722,605	2,755,623
Pension costs-Defined contribution plans	370,165	432,425
Housing funds	126,185	101,029
Labor union fee and staff education expenses	57,610	77,332
Other social security and benefit costs	196,418	197,593
Total	3,472,983	3,564,002

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

10 IMPAIRMENT LOSSES ON ASSETS

	For the six months ended June 30,	
	2018	2017
Loans and advances to customers (Note 18(b))		
– Collectively assessed	N/A	2,121,313
– Individually assessed	N/A	995,728
Debt instruments classified as receivables	N/A	2,020,051
Others	–	69,986
Total	–	5,207,078

11 EXPECTED CREDIT LOSSES

	For the six months ended June 30,	
	2018	2017
Loans and advances to customers (Note 18(b))	4,955,337	N/A
Financial assets at fair value through other comprehensive income	(51,816)	N/A
Financial assets measured at amortised cost (Note 20)	(66,809)	N/A
Financial guarantee contracts and loan commitments	56,925	N/A
Finance lease receivables	175,266	N/A
Others	9,573	N/A
Total	5,078,476	N/A

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

12 INCOME TAX EXPENSE

	For the six months ended June 30,	
	2018	2017
Current income tax	1,801,807	2,944,434
Deferred income tax (Note 23)	(365,153)	(1,236,308)
Total	1,436,654	1,708,126

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

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 June 30,	
	2018	2017
Profit before income tax	7,945,718	7,310,343
Tax calculated at a tax rate of 25%	1,986,430	1,827,586
Tax effect arising from income not subject to tax (i)	(500,766)	(176,066)
Tax effect of expenses that are not deductible and other impact for tax purposes	(49,010)	56,606
Income tax expense	1,436,654	1,708,126

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

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 periods.

	For the six months ended June 30,	
	2018	2017
Net profit attributable to shareholders of the Bank (in RMB thousands)	6,269,211	5,613,405
Weighted average number of ordinary shares in issue (in thousands)	18,339,197	17,959,697
Basic earnings per share (in RMB yuan)	0.34	0.31

For the six months ended June 30, 2018, 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 March 29, 2017 and the terms and conditions as detailed in Note 31. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the period ended June 30, 2018, 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 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

14 CASH AND BALANCES WITH CENTRAL BANK

	June 30, 2018	December 31, 2017
Cash	398,716	462,404
Mandatory reserve deposits with central bank (a)	106,746,351	119,178,519
Surplus reserve deposits with central bank (b)	24,446,519	34,390,270
Fiscal deposits	105,493	60,247
Total	131,697,079	154,091,440

(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.

(b) Surplus reserve deposits is mainly used for fund settlement.

As at June 30, 2018, and December 31, 2017, the mandatory reserve deposit rates of the Group were as follows:

	June 30, 2018	December 31, 2017
Mandatory reserve rate for deposits denominated in RMB (i)	12.5%	14.5%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	5%	5%

(i) Based on deposit balance on the end of reporting period.

15 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	June 30, 2018	December 31, 2017
Deposits with banks and other financial institutions	19,780,486	24,807,068
Securities purchased under resale agreements	41,717,631	28,986,147
Placements with banks and other financial institutions	14,973,627	4,152,470
Notes purchased under resale agreements	7,563,495	13,086,753
Others purchased under resale agreements	–	400,000
ECL allowance	(5,810)	N/A
Total	84,029,429	71,432,438

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	December 31, 2017
Government bonds		
– Listed outside Hong Kong	4,845,730	5,124,435
Other debt securities		
– Listed outside Hong Kong	51,542,891	41,220,081
Fund investments	78,111,533	–
Total	134,500,154	46,344,516

As at June 30, 2018 and December 31, 2017, all financial assets at fair value through profit or loss of the Group were held for trading.

As at June 30, 2018 and December 31, 2017, 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 interbank bond market are included under the category of “Listed outside Hong Kong”.

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

	June 30, 2018	December 31, 2017
Issuers in the PRC		
– Government	4,845,730	5,124,435
– Banks and other financial institutions	33,070,287	26,203,160
– Corporates	18,472,604	15,016,921
Fund investments	78,111,533	–
Total	134,500,154	46,344,516

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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17 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Nominal value	Fair value	
		Asset	Liability
June 30, 2018			
Swap contracts	1,354,704,005	6,553,025	(7,660,224)
Option contracts	186,800,360	1,200,351	(376,797)
Forward contracts	9,467,192	132,794	(92,154)
Total	1,550,971,557	7,886,170	(8,129,175)
December 31, 2017			
Swap contracts	852,580,297	3,535,377	(4,993,096)
Option contracts	67,058,306	864,398	(288,790)
Forward contracts	8,877,327	154,311	(15,977)
Total	928,515,930	4,554,086	(5,297,863)

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	June 30, 2018	December 31, 2017
Loans and advances at amortised cost		
Corporate loans and advances		
– Corporate loans	560,569,352	487,541,032
– Trade finance	25,099,302	31,055,661
	585,668,654	518,596,693
Personal loans and advances		
– Personal business	102,647,760	88,211,424
– Residential mortgage loans	40,061,324	28,340,877
– Others	22,087,184	17,380,356
	164,796,268	133,932,657
Discounted bills	–	20,349,584
Gross amount of Loans and advances at amortised cost	750,464,922	672,878,934

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(a) Loans and advances to customers: *(continued)*

	June 30, 2018	December 31, 2017
Less: ECL allowance	(25,310,645)	N/A
Including : Stage 1	(14,535,791)	N/A
Stage 2	(3,210,518)	N/A
Stage 3	(7,564,336)	N/A
Less: Allowance for impairment losses	N/A	(23,062,217)
– Collectively assessed	N/A	(19,168,076)
– Individually assessed	N/A	(3,894,141)
Net amount of Loans and advances at amortised cost	725,154,277	649,816,717
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
– Trade finance	4,735,203	N/A
Discounted bills	40,828,960	N/A
Gross amount of Loans and advances at fair value through other comprehensive income	45,564,163	N/A
Fair value changes on financial assets at fair value through other comprehensive income	142,860	N/A
Less: ECL allowance	(151,669)	N/A
Net amount of Loans and advances at fair value through other comprehensive income	45,555,354	N/A
Loans and advances to customers	770,709,631	649,816,717

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Movements in ECL allowance for loans and advances to customers and impairment loss on loans and advances to customers listed by assessment method:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance as at January 1, 2018	13,072,630	2,016,612	5,950,233	21,039,475
Provision for impairment (Note 11)	1,696,018	826,486	1,069,032	3,591,536
Transfers (Note 11):				
Transfer from Stage 1 to Stage 2	(72,873)	706,202	–	633,329
Transfer from Stage 2 to Stage 1	151	(4,348)	–	(4,197)
Transfer from Stage 1 to Stage 3	(19,413)	–	331,185	311,772
Transfer from Stage 3 to Stage 1	11	–	(3,039)	(3,028)
Transfer from Stage 2 to Stage 3	–	(334,475)	760,537	426,062
Transfer from Stage 3 to Stage 2	–	38	(175)	(137)
Subtotal	1,603,894	1,193,903	2,157,540	4,955,337
Write-offs	–	–	(494,067)	(494,067)
Transfer out	–	–	(84,991)	(84,991)
Recoveries of loans write-off in previous years	–	–	84,603	84,603
Exchange differences and others	5,430	3	(43,476)	(38,043)
ECL allowance as at June 30, 2018	14,681,954	3,210,518	7,569,842	25,462,314

	June 30, 2018		December 31, 2017	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the period	N/A	N/A	13,038,063	2,786,333
Net impairment allowances charged to profit or loss	N/A	N/A	6,648,789	2,068,766
Unwinding of discount on allowance	N/A	N/A	(26,255)	(27,333)
Write-offs	N/A	N/A	(467,314)	(851,218)
Transfer out	N/A	N/A	(225,613)	(164,572)
Recoveries	N/A	N/A	221,674	82,165
Exchange differences	N/A	N/A	(21,268)	–
Balance at end of the period	N/A	N/A	19,168,076	3,894,141

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Loans listed by assessment method for allowance:

June 30, 2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount of loans and advances	774,498,006	12,379,894	9,151,185	796,029,085
Corporate loans	611,593,315	11,541,029	8,098,473	631,232,817
Personal loans	162,904,691	838,865	1,052,712	164,796,268
ECL allowance	(14,681,954)	(3,210,518)	(7,569,842)	(25,462,314)
Change in fair value	142,860	–	–	142,860
Loans and advances to customers, net	759,958,912	9,169,376	1,581,343	770,709,631

December 31, 2017

	Identified impaired loans and advances			Subtotal	Total
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed		
Corporate loans and advances	531,985,076	1,016,925	5,944,276	6,961,201	538,946,277
Personal loans and advances	133,127,294	805,363	–	805,363	133,932,657
Allowance for impairment losses	(17,793,757)	(1,374,319)	(3,894,141)	(5,268,460)	(23,062,217)
Loans and advances to customers, net	647,318,613	447,969	2,050,135	2,498,104	649,816,717

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Industrial risk concentration for loans and advances to customers

	As at June 30, 2018		As at December 31, 2017	
	Carrying amount	%	Carrying amount	%
Corporate loans and advances				
Manufacturing	122,231,725	15.36	115,674,946	17.19
Leasing and business services	105,616,818	13.27	92,900,199	13.81
Real estate	97,291,157	12.22	73,159,185	10.87
Wholesale and retail	86,673,768	10.89	74,865,365	11.13
Water conservancy, environment and administrative of public facilities	57,674,769	7.25	61,972,488	9.21
Construction	46,738,308	5.87	39,097,951	5.81
Financing institutions	16,990,522	2.13	9,371,760	1.39
Transportation, storage and postal service	10,831,168	1.36	13,858,268	2.06
Information transmission, computer services and software	10,284,033	1.29	6,890,220	1.03
Electricity, heat, gas and water production and supply	8,939,125	1.12	7,914,379	1.18
Mining	5,299,997	0.67	3,919,123	0.58
Agriculture, forestry, animal husbandry and fishery	5,224,979	0.66	4,856,384	0.72
Accommodation and catering	4,619,656	0.58	4,468,664	0.66
Scientific research, technology services and geological prospecting	3,282,086	0.41	2,137,302	0.32
Household services and other services	3,049,216	0.38	2,424,940	0.36
Culture, sports and entertainment	2,938,366	0.37	2,541,591	0.38
Health, social security and social welfare	1,655,492	0.21	1,150,942	0.17
Education	1,049,672	0.13	835,826	0.12
Public administration and social organisations	13,000	0.00	557,160	0.08
Total corporate loans and advances	590,403,857	74.17	518,596,693	77.07
Personal loans and advances	164,796,268	20.70	133,932,657	19.90
Discounted bills	40,828,960	5.13	20,349,584	3.03
Gross amount of loans and advances before impairment allowance	796,029,085	100.00	672,878,934	100.00

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Loans and advances to customers analysed by security type (by carrying amount)

	As at June 30, 2018	As at December 31, 2017
Collateralised loans	309,113,584	248,456,852
Guaranteed loans	214,468,126	203,506,330
Pledged loans	136,779,744	119,379,949
Unsecured loans	94,838,671	81,186,219
Discounted bills	40,828,960	20,349,584
Total	796,029,085	672,878,934

(f) Analysis of loans and advances to customers by geographical areas (by carrying amount)

	As at June 30, 2018		As at December 31, 2017	
	Carrying amount	%	Carrying amount	%
Yangtze River Delta region	452,669,383	56.87	402,745,180	59.86
Midwestern China	147,778,718	18.56	124,495,153	18.50
Bohai Rim region	121,792,682	15.30	90,467,487	13.44
Pearl River Delta region	73,788,302	9.27	55,171,114	8.20
Total	796,029,085	100.00	672,878,934	100.00

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(g) Overdue loans and advances by security type and overdue days

	As at June 30, 2018				Total
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	
Unsecured	1,293,414	458,131	95,932	–	1,847,477
Guaranteed	1,837,644	579,606	1,228,131	90,206	3,735,587
Collateralised	1,035,008	1,767,411	1,819,328	121,108	4,742,855
Pledged	226,216	10,838	436,615	9,465	683,134
Total	4,392,282	2,815,986	3,580,006	220,779	11,009,053

	As at December 31, 2017				Total
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	
Unsecured	417,719	284,645	58,690	–	761,054
Guaranteed	196,564	1,102,441	925,397	9,021	2,233,423
Collateralised	550,041	1,771,186	1,319,076	85,730	3,726,033
Pledged	4,260	430,605	34,051	–	468,916
Total	1,168,584	3,588,877	2,337,214	94,751	7,189,426

(h) Rescheduled loans and advances

Rescheduled loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms.

	June 30, 2018	December 31, 2017
Rescheduled loans and advances	1,641,393	319,099
Less: ECL Allowance	(1,305,467)	(121,926)
Rescheduled loans and advances, net	335,926	197,173

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2018	December 31, 2017
Financial assets at fair value through other comprehensive income		
Listed outside Hong Kong		
– Debt securities	34,589,147	N/A
– Interbank certificates of deposit	1,904,576	N/A
– Other debt investment	14,251,722	N/A
Unlisted		
– Equity securities	25,000	N/A
Total	50,770,445	N/A

Financial assets at fair value through other comprehensive income analysed by issuer or sponsor are as follows:

	June 30, 2018	December 31, 2017
Financial assets at fair value through other comprehensive income		
By issuer:		
– Government	8,764,420	N/A
– Banks and other financial institutions	21,165,279	N/A
– Corporates	20,815,746	N/A
Subtotal	50,745,445	N/A
Equity securities	25,000	N/A
Total	50,770,445	N/A

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

20 FINANCIAL ASSETS MEASURED AT AMORTISED COST

	June 30, 2018	December 31, 2017
Financial assets measured at amortised cost		
Listed outside Hong Kong		
– Debt securities	124,709,688	N/A
Unlisted		
– Trust plans and asset management plans	278,734,985	N/A
– Wealth management products	2,248,284	N/A
Total	405,692,957	N/A
Less : ECL allowance (i)	(4,723,663)	N/A
Financial assets measured at amortised cost-Net	400,969,294	N/A

(i) The movements in ECL allowance are summarised as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance as at January 1, 2018	4,285,706	155,474	349,292	4,790,472
Provision for impairment (Note 11)	(1,171,369)	118,001	594,549	(458,819)
Transfers in (Note 11) :				
– Stage 1 to Stage 2	(4,446)	64,427	–	59,981
– Stage 2 to Stage 3	–	(154,574)	486,603	332,029
ECL allowance as at June 30, 2018	3,109,891	183,328	1,430,444	4,723,663

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

20 FINANCIAL ASSETS MEASURED AT AMORTISED COST *(continued)*

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

	June 30, 2018
Financial assets measured at amortised cost	
By issuer:	
– Government	90,992,195
– Banks and other financial institutions	33,632,616
– Trust plans and asset management plans issued by financial institution other than bank(a)	278,734,985
– Wealth management products issued by other banks	2,248,284
– Others	84,877
Total	405,692,957
Less : ECL allowance	(4,723,663)
Financial assets measured at amortised cost-Net	400,969,294

(a) Trust plans and asset management plans can be analysed by secured and unsecured as follows :

	June 30, 2018
Secured:	
Guaranteed by third-party companies	33,451,746
Pledged by certificates of deposit	14,099,110
Collateralised by properties	27,052,866
Subtotal	74,603,722
Unsecured:	
Financial institutions	63,100,881
Corporates	141,030,382
Subtotal	204,131,263
Total	278,734,985

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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21 FINANCIAL INVESTMENTS

	June 30, 2018	December 31, 2017
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	N/A	61,105,819
– Interbank certificates of deposit	N/A	4,954
Unlisted		
– Equity securities	N/A	25,000
– Fund investments	N/A	57,018,238
– Trust plans and asset management plans	N/A	9,744,948
Total	N/A	127,898,959
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	N/A	91,262,790
– Interbank certificates of deposit	N/A	300,000
Total	N/A	91,562,790
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans	N/A	343,917,605
– Wealth management products	N/A	2,873,649
– Debt securities	N/A	400,000
Subtotal	N/A	347,191,254
Less: Allowance for impairment losses		
– Collectively assessed	N/A	(3,650,517)
– Individually assessed	N/A	(317,956)
Subtotal	N/A	(3,968,473)
Debt instruments classified as receivables – Net	N/A	343,222,781

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(continued)*

Financial investments analysed by issuer or sponsor are as follows:

	June 30, 2018	December 31, 2017
Available-for-sale financial assets		
By issuer:		
– Government	N/A	20,122,725
– Banks and other financial institutions	N/A	42,901,855
– Corporates	N/A	7,831,141
Subtotal	N/A	70,855,721
Fund investment	N/A	57,018,238
Equity securities	N/A	25,000
Total	N/A	127,898,959
Held-to-maturity investments		
By issuer:		
– Government	N/A	74,800,038
– Banks and other financial institutions	N/A	16,434,852
– Others	N/A	327,900
Total	N/A	91,562,790
Debt instruments classified as receivables		
By sponsor:		
– Banks and other financial institutions	N/A	346,791,254
– Others	N/A	400,000
Total	N/A	347,191,254
Less: Allowance for impairment losses	N/A	(3,968,473)
Debt instruments classified as receivables – Net	N/A	343,222,781

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

22 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Leased fixed assets in the operating leases	Construction in progress	Total
Cost						
At January 1, 2018	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Additions	36,222	199,088	4,425	–	298,993	538,728
Transfer from Construction in progress	18,734	–	–	–	(18,734)	–
Transfer to long-term prepaid expenses	–	–	–	–	(11,327)	(11,327)
Disposals	(6,478)	(30,077)	(3,797)	–	–	(40,352)
At June 30, 2018	4,194,264	1,275,177	175,600	347,120	2,124,665	8,116,826
Accumulated depreciation						
At January 1, 2018	(480,636)	(441,573)	(99,625)	(5,240)	–	(1,027,074)
Charge for the period	(70,740)	(145,943)	(10,404)	(10,826)	–	(237,913)
Disposals	276	6,211	3,770	–	–	10,257
At June 30, 2018	(551,100)	(581,305)	(106,259)	(16,066)	–	(1,254,730)
Net book value						
At June 30, 2018	3,643,164	693,872	69,341	331,054	2,124,665	6,862,096
Cost						
At January 1, 2017	1,618,498	793,570	153,643	–	1,324,523	3,890,234
Additions	1,625,057	331,241	33,607	347,120	1,513,421	3,850,446
Transfer from Construction in progress	941,598	–	–	–	(941,598)	–
Disposals	(39,367)	(18,645)	(12,278)	–	(40,613)	(110,903)
At December 31, 2017	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Accumulated depreciation						
At January 1, 2017	(390,505)	(360,983)	(93,045)	–	–	(844,533)
Charge for the year	(101,969)	(97,829)	(18,206)	(5,240)	–	(223,244)
Disposals	11,838	17,239	11,626	–	–	40,703
At December 31, 2017	(480,636)	(441,573)	(99,625)	(5,240)	–	(1,027,074)
Net book value						
At December 31, 2017	3,665,150	664,593	75,347	341,880	1,855,733	6,602,703

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

23 DEFERRED INCOME TAXES

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

	June 30, 2018		December 31, 2017	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
ECL allowance and Provisions	6,672,209	26,688,834	N/A	N/A
Impairment allowances for assets	–	–	5,462,778	21,851,113
Staff salary and welfare payable	811,354	3,245,415	867,767	3,471,069
Fair value changes of financial assets at fair value through profit or loss	–	–	275,262	1,101,046
Fair value changes of financial assets at fair value through other comprehensive income	42,682	170,728	N/A	N/A
Unrealised losses of financial assets – available-for-sale	N/A	N/A	517,939	2,071,755
Unrealised losses of derivative instruments	206,102	824,406	185,944	743,777
Others	55,537	222,148	57,118	228,472
Subtotal	7,787,884	31,151,531	7,366,808	29,467,232
Deferred income tax liabilities:				
Unrealised gains of financial assets at fair value through profit or loss	(39,482)	(157,927)	–	–
Subtotal	(39,482)	(157,927)	–	–
Net deferred income tax	7,748,402	30,993,604	7,366,808	29,467,232

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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23 DEFERRED INCOME TAXES *(continued)*

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

	June 30, 2018	December 31, 2017
Balance at the end of the last period/year	7,366,808	4,601,026
Impact on accounting policy changes	72,876	N/A
Balance at beginning of the period/year	7,439,684	4,601,026
Charged to profit or loss (Note 12)	365,153	2,348,002
Charged to other comprehensive income		
– Fair value changes of financial assets – available-for-sale (Note 33)	N/A	417,780
– Fair value changes of financial assets at fair value through other comprehensive income (Note 33)	(56,435)	N/A
At end of the period/year	7,748,402	7,366,808

24 OTHER ASSETS

	June 30, 2018	December 31, 2017
Interest receivable (i)	7,625,059	6,774,673
Intangible assets (ii)	732,951	753,561
Other receivables	5,375,108	2,602,825
Prepayment of land and building and deposit	1,996,990	805,882
Prepayment of improvements and equipment	305,075	240,538
Long-term prepaid expenses	552,311	385,744
Guaranteed deposits	925,850	541,125
Funds to be settled	1,095,681	159,267
Finance lease receivables	10,302,833	8,415,635
Others	1,018,953	797,101
Total	29,930,811	21,476,351

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

24 OTHER ASSETS *(continued)*

(i) Interest receivable

	June 30, 2018	December 31, 2017
Financial investments and financial assets at fair value through profit or loss	5,071,877	3,255,667
Loans and advances to customers	2,345,114	3,300,120
Due from other banks and central bank	71,872	154,909
Others	136,196	63,977
Total	7,625,059	6,774,673

(ii) Intangible assets

	Land use rights	Computer software	Total
Cost			
At January 1, 2018	633,294	372,857	1,006,151
Additions	–	7,265	7,265
At June 30 2018	633,294	380,122	1,013,416
Accumulated amortisation			
At January 1, 2018	(82,833)	(169,757)	(252,590)
Amortisation for the period	(8,135)	(19,740)	(27,875)
At June 30, 2018	(90,968)	(189,497)	(280,465)
Net book value			
At June 30, 2018	542,326	190,625	732,951

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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24 OTHER ASSETS (continued)

(ii) Intangible assets (continued)

	Land use rights	Computer software	Total
Cost			
At January 1, 2017	528,783	314,597	843,380
Additions	104,511	58,260	162,771
At December 31, 2017	633,294	372,857	1,006,151
Accumulated amortisation			
At January 1, 2017	(66,782)	(136,750)	(203,532)
Amortisation for the year	(16,051)	(33,007)	(49,058)
At December 31, 2017	(82,833)	(169,757)	(252,590)
Net book value			
At December 31, 2017	550,461	203,100	753,561

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

	June 30, 2018	December 31, 2017
Held outside Hong Kong		
– on medium-term lease (10-50 years)	542,326	550,461

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	June 30, 2018	December 31, 2017
Deposits from banks and other financial institutions	293,376,799	297,421,983
Placements from banks and other financial institutions	30,247,284	29,249,712
Securities sold under repurchase agreements	33,683,380	28,857,000
Notes sold under repurchase agreements	3,264,082	1,276,923
Total	360,571,545	356,805,618

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	December 31, 2017
Financial liabilities related to precious metal contracts	5,594,407	5,466,318
Short sell of borrowed securities	–	149,272
Total	5,594,407	5,615,590

27 CUSTOMER DEPOSITS

	June 30, 2018	December 31, 2017
Corporate demand deposits	284,312,569	290,752,765
Corporate time deposits	523,759,857	511,302,211
Individual demand deposits	50,263,266	21,166,325
Individual time deposits	40,935,681	34,521,564
Other deposits	6,687,880	2,876,592
Total	905,959,253	860,619,457
Including: Pledged deposits held as collateral	115,397,513	107,738,211

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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28 DEBT SECURITIES ISSUED

	June 30, 2018	December 31, 2017
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
Fixed-rate offering-tier 2 capital bond – 2028 (vi)	15,000,000	–
Interbank certificates of deposit	171,716,561	159,551,983
Total	217,716,561	190,551,983

- (i) Fixed-rate financial bond of RMB1.5 billion was issued on September 11, 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 on March 10, 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 on December 24, 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 on February 24, 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 on September 14, 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.
- (vi) Fixed-rate offering-tier 2 capital bond of RMB15 billion was issued on June 13, 2018, with a maturity of 10 years and a fixed coupon rate of 4.80% per annum payable annually. The Bank has an option to redeem the debts at the year end of fifth year with certain condition.

As at June 30, 2018, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or interbank certificates of deposit for the Group.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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29 OTHER LIABILITIES

	June 30, 2018	December 31, 2017
Interest payable (i)	13,896,610	13,828,010
Salary and welfare payable (ii)	4,162,991	4,888,622
Tax payable (iii)	972,124	657,755
Dividends payable	3,205,665	869,576
Notes payable	1,294,781	1,441,291
Settlement fund	7,582,402	1,809,198
Promissory notes and certified cheques issued	134,256	350,547
Deferred income	12,731	16,903
Others	2,092,306	1,420,044
Total	33,353,866	25,281,946

(i) Interest payable

	June 30, 2018	December 31, 2017
Customer deposits	9,686,868	11,005,207
Due to banks and other financial institutions	3,029,412	1,896,432
Debt securities issued	1,180,330	926,371
Total	13,896,610	13,828,010

(ii) Salary and welfare payable

	June 30, 2018	December 31, 2017
Salary, bonus, allowance and subsidies	4,122,269	4,806,160
Other social welfare and employee welfare	34	-
Housing funds	70	-
Post employment benefits-defined contribution plan	210	-
Labor union fee and staff education expenses	40,408	82,462
Total	4,162,991	4,888,622

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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29 OTHER LIABILITIES *(continued)*

(iii) Tax payable

	June 30, 2018	December 31, 2017
Value-added tax payable	759,814	564,841
Others	212,310	92,914
Total	972,124	657,755

30 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:

	June 30, 2018	December 31, 2017
Number of shares authorised, issued and fully paid at par value (in thousands) (i)	18,718,697	17,959,697

- (i) According to the Bank's proposal of the board of directors on March 10, 2017 and the approval of the general meeting of shareholders on May 31, 2017, the Bank applied for the issuance of no more than 759,000,000 H shares to investors overseas. The application for the Bank's capital increase plan was approved by the China Banking Regulatory Commission (Yin Jian Fu [2018] No. 16 Document). With regard to this capital increase, as at March 29, 2018, the Bank received a total of RMB2,914,545 thousand from the shareholders, including an increase of RMB759,000 thousand in share capital and a capital reserve of RMB2,155,545 thousand.

As at June 30, 2018, the Group's capital reserve is shown as follows:

	June 30, 2018	December 31, 2017
Share premium (ii)	22,130,353	19,974,808

- (ii) The Bank recognised 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

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

31 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	March 29, 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

	December 31, 2017	Addition	Reduction	June 30, 2018
Number (share)	108,750,000	–	–	108,750,000
Total (USD in thousands)	2,175,000	–	–	2,175,000
Total (RMB in thousands)	14,957,664	–	–	14,957,664

(c) Main terms of preference shares

(i) Dividends

The offshore preference shares dividend will be calculated on following dividend yields:

- 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

31 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 shareholders' 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: (i) 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

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

31 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 related to the holders of the equity instrument

	June 30, 2018	December 31, 2017
Attributable to shareholders of the Bank	94,641,881	88,194,636
Equity attribute to ordinary shareholders of the Bank	79,684,217	73,236,972
Equity attribute to other equity holders of the Bank	14,957,664	14,957,664
Attributable to non-controlling interest	1,516,357	1,493,118

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32 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2018	4,882,975	17,243,730
Appropriation	–	1,218,261
Balance at June 30, 2018	4,882,975	18,461,991
Balance at January 1, 2017	3,790,406	13,242,456
Appropriation	1,092,569	–
Appropriation	–	4,001,274
Balance at December 31, 2017	4,882,975	17,243,730

(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 capitalisation is not less than 25% of the ordinary share capital before capitalisation.

(ii) Statutory general reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement"), effective on July 1, 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

For the six months ended 30 June 2018
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33 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at December 31, 2017	(2,071,756)	517,939	(1,553,817)
Impact on Accounting policy changes	1,675,287	(418,822)	1,256,465
Balance at January 1, 2018	(396,469)	99,117	(297,352)
Fair value changes in financial assets at fair value through other comprehensive income (Note 23)	382,303	(95,576)	286,727
Amounts previously recognised in other comprehensive income reclassified to profit or loss (Note 23)	(102,591)	25,648	(76,943)
ECL of financial assets at fair value through other comprehensive income (Note 23)	(53,971)	13,493	(40,478)
Exchange difference on translation of foreign financial statements	278,375	–	278,375
Balance at June 30, 2018	107,647	42,682	150,329

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2017	(400,637)	100,159	(300,478)
Fair value changes in financial assets – available-for-sale (Note 23)	(1,520,518)	380,130	(1,140,388)
Amounts previously recognised in other comprehensive income reclassified to profit or loss (Note 23)	(150,601)	37,650	(112,951)
Balance at December 31, 2017	(2,071,756)	517,939	(1,553,817)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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34 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 Standards and (ii) the retained profit determined in accordance with IFRS.

As approved by shareholders in the Annual General Meeting on June 27, 2018, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,182,178 thousand.

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

On December 20, 2017, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends paid was USD132 million (including tax), and the dividend payment date would be March 29, 2018.

35 NON-CONTROLLING INTEREST

The Group's non-controlling interest is listed as follows :

	June 30, 2018	December 31, 2017
Zheyin Financial Leasing Co., Ltd.	1,516,357	1,493,118

As at June 30, 2018, the non-controlling interest of the Group is not material.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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36 THE EQUITY IN OTHER ENTITIES

36.1 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 set 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 June 30, 2018, the balance of unconsolidated wealth management products sponsored and managed by the Group is RMB313,940 million (December 31, 2017: RMB348,919 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which is insignificant. For the six months ended at June 30, 2018, the Group's intermediate business income from providing management services for the non-principal guaranteed wealth management products was RMB862 million (For the six months ended at June 30, 2017: RMB3,914 million).

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

As at June 30, 2018, 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 June 30, 2018, the Group did not provide financial or other support to these structured entities.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

36 THE EQUITY IN OTHER ENTITIES *(continued)*

36.1 Unconsolidated structured entities *(continued)*

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

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 June 30, 2018		
Financial assets at fair value through profit or loss		
– Fund investments	78,111,533	78,111,533
– Asset backed securitisation	2,655,657	2,655,657
– Trust plans and asset management plans	3,134,815	3,134,815
– Wealth management products sponsored by other banks	2,003,620	2,003,620
Financial assets at fair value through other comprehensive income		
– Asset backed securitisation	6,057	6,057
Financial assets at amortised cost		
– Asset backed securitisation	36,248	36,332
– Wealth management products sponsored by other banks	2,248,284	2,248,284
– Trust plans and asset management plans	278,734,985	280,379,215
At December 31, 2017		
Financial assets at fair value through profit or loss		
– Asset backed securitisation	1,903,556	1,903,556
Available for sale financial assets		
– Asset backed securitisation	85,941	85,941
– Fund investments	57,018,238	57,018,238
– Trust plans and asset management plans	9,744,948	9,744,948
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	2,873,649	2,873,649
– Trust plans and asset management plans	343,917,605	345,580,932

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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37 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and other credit commitments

	June 30, 2018	December 31, 2017
Acceptances	219,516,366	214,386,017
Letters of credit issued	117,546,922	108,503,258
Letters of guarantee issued	31,524,634	40,837,128
– Letters of financial guarantee	22,762,562	31,003,722
– Letters of non-financial guarantee	8,342,368	8,915,617
– Letters of guarantee	419,704	917,789
Loan commitments	1,167,000	717,025
Unused credit card limit	17,244,688	22,822,115
Total	386,999,610	387,265,543

(b) Capital commitments

	June 30, 2018	December 31, 2017
Authorised but not contracted	479,432	3,901,619
Contracted but not yet incurred	3,863,282	857,708
Total	4,342,714	4,759,327

(c) Operating leasing commitment

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

	June 30, 2018	December 31, 2017
Within one year	688,418	632,555
Between one year and five years	2,483,671	1,986,283
More than five years	1,433,196	1,350,040
Total	4,605,285	3,968,878

(d) Legal proceedings

As at June 30, 2018 and December 31, 2017, 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 2018
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38 ASSETS PLEDGED

	June 30, 2018	December 31, 2017
Bonds	60,485,095	69,650,442
Bills	3,278,812	1,284,291
Total	63,763,907	70,934,733

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

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

	June 30, 2018	December 31, 2017
Financial guarantees and credit related commitments	93,548,604	101,312,102

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by China Banking and Insurance Regulatory Commission 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.

40 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:

	June 30, 2018	December 31, 2017
Cash	398,716	462,404
Surplus deposit reserve with central bank	24,446,519	34,390,270
Due from banks and other financial institutions	25,934,097	23,737,068
Total	50,779,332	58,589,742

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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41 RELATED PARTY TRANSACTIONS

Related party transactions are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties. Transactions with related party are as follows:

(a) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group

Name of Shareholders	Shareholding Ratio (%)	
	June 30, 2018	December 31, 2017
Zhejiang Provincial Financial Holdings Co., Ltd.	14.19	14.79

- (1) Balance and relevant interest rate spectrum of transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group are as follows:

	June 30, 2018	December 31, 2017
Customer deposits	5,767,367	4,433,738
Provide guarantees or pledges for loans to customers	6,538,135	4,834,832
Debt instruments classified as receivables	N/A	3,500,000
Financial assets measured at amortised cost	3,500,000	N/A
Financial assets at fair value through profit or loss	1,800,000	N/A
Rate of customer deposits	0.35%-4.12%	0%-0.35%

- (2) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group during the period are as follows:

	For the six months ended June 30,	
	2018	2017
Interest expense	178,755	159,206
Net fee and commission income/(expense)	1	(15)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

41 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other main shareholders and their related parties

Other major shareholders refer to those shareholders who hold or control more than 5% of the Group's shares or voting rights and corporations that has sent directors, supervisors or Senior Management to the Group (excluding Zhejiang Provincial Financial Holdings).

- (i) Balance and relevant interest rate spectrum of transactions with other main shareholders and their related parties are as follows:

	June 30, 2018	December 31, 2017
Customer deposits	566,362	1,681,810
Loans and advances to customers	1,824,639	1,825,220
Acceptances	26,051	116,107
Domestic letters of credit	693,000	188,000
Letters of guarantee	18	301
Provide guarantees or pledges for loans to customers	5,470,804	4,572,840
Debt instruments classified as receivables	N/A	7,216,603
Financial assets at fair value through profit or loss	1,000,000	N/A
Rate of loans and advances to customers	4.35%-6.09%	4.25%-6.60%
Rate of customer deposits	0%-3.38%	0%-1.95%

- (ii) Transactions with other main shareholders and their related parties during the year are as follows:

	For the six months ended June 30,	
	2018	2017
Interest income	66,727	26,899
Interest expense	27,606	99,874
Net fee and commission income	1,160	12,206

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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41 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with other corporations as related parties

Other corporations as related parties refer to those shareholders who hold or control less than 5% of the Group's shares or voting rights.

- (i) Balance and relevant interest rate spectrum of transactions with other artificial persons as related parties are as follows:

	June 30, 2018	December 31, 2017
Customer deposits	251,898	571,627
Loans and advances to customers	415,000	290,000
Acceptances	9,792	421,839
Domestic letters of credit	55,500	45,500
Provide guarantees or pledges for loans to customers	856,300	1,164,900
Bonds	904,775	955,244
Debt instruments classified as receivables	N/A	4,870,000
Financial assets measured at amortised cost	12,670,096	N/A
Rate of loans and advances to customers	4.75%-6.60%	4.07%-6.53%
Rate of customer deposits	0%-4.4%	0%-1.95%

- (ii) Transactions with other artificial persons as related parties during the period are as follows:

	For the six months ended June 30,	
	2018	2017
Interest income	12,770	17,181
Interest expense	8,558	27,645
Net fee and commission income	7,338	37

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41 RELATED PARTY TRANSACTIONS *(continued)*

- (d) **The amounts and relevant interest rate spectrum of transactions with the Group's directors, supervisors and Senior Management and their family members are as follows:**

	June 30, 2018	December 31, 2017
Customer deposits	27,380	7,647
Loans and advances to customers	900	900
Provide guarantees or pledges for loans to customers	1,042,000	1,047,000
Rate of loans and advances to customers	4.95%-8.96%	4.95%-6.81%
Rate of customer deposits	0.25%-3.25%	0.05%-5.00%

	For the six months ended June 30,	
	2018	2017
Interest expense	102	12

In addition, Yongli Properties Group Limited, which is under the control of the Group's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for the Shaoxing Branch of the Bank: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rental is RMB3,000 thousand for the first two years; for the third to the fifth year, the rental increased by 5% on the basis of the second year rental. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rental of RMB650 thousand. Besides, according to the resolution of shareholders' meeting held on June 27, 2018, Zhou Yang ceased to be a supervisor for June 30, 2018 onward.

- (e) **Government related entities**

The transactions between the Group and 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 2018
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41 RELATED PARTY TRANSACTIONS *(continued)*

(f) Transactions between the Bank and the subsidiary

Transactions between the Bank and the subsidiary include due to banks and other financial institutions, due from banks and other financial institutions, operating leasing, etc. They are based on market prices with the normal business procedure or are performed according to the Bank's contractual obligations, and are reviewed by the corresponding decision-making body depending on the types of transactions and the contents of transactions. During the reporting period, transactions between the Bank and the subsidiary were not significant.

(g) Key management personnel remuneration

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 June 30, 2018 and the six months ended June 30 2017, 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 June 30,	
	2018	2017
Fees	900	900
Salaries and allowances and benefits	8,034	6,048
Discretionary bonuses	25,668	28,007
Contribution to pension	266	770
Total	34,868	35,725

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

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42 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 relevant business of subsidiaries.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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42 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	For the six months ended June 30, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	16,644,948	4,424,955	13,126,521	373,711	34,570,135
Other interest income	–	–	990,551	–	990,551
External interest expense	(10,195,888)	(1,232,080)	(11,336,293)	(171,709)	(22,935,970)
Inter-segment net interest income/(expenses)	4,021,166	(1,252,504)	(2,768,662)	–	–
Net interest income	10,470,226	1,940,371	12,117	202,002	12,624,716
Net fee and commission income	663,902	319,674	1,321,488	32,884	2,337,948
Net trading gains	–	–	2,768,779	–	2,768,779
Net investment income	402,146	–	173,018	–	575,164
Other operating income	3,000	5,768	127,636	153,049	289,453
Operating income	11,539,275	2,265,813	4,403,038	387,935	18,596,060
Operating expenses	(3,051,481)	(935,898)	(1,522,676)	(61,811)	(5,571,866)
– Depreciation and amortisation	(153,560)	(32,619)	(123,021)	(11,902)	(321,102)
ECL	(4,520,985)	(449,774)	67,550	(175,267)	(5,078,476)
Profit before income tax	3,966,808	880,141	2,947,912	150,857	7,945,718
Capital expenditure	474,112	81,159	184,717	16,559	756,547
	June 30, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,017,991,298	174,261,408	396,616,218	35,554,358	1,624,423,282
Unallocated assets					7,748,402
Total assets					1,632,171,684
Segment liabilities	(832,025,969)	(92,968,525)	(598,002,529)	(13,016,423)	(1,536,013,446)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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42 SEGMENT REPORTING *(continued)*

(b) Geographical segments

Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China(including Hong Kong).

- “Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan, Hefei;
- “Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;
- “Pearl River Delta Region” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hong Kong; and
- “Midwestern China” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
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42 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	For the six months ended June 30, 2018					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	Total
External interest income	21,312,186	5,364,931	2,432,770	5,460,248	-	34,570,135
Other interest income	990,551	-	-	-	-	990,551
External interest expense	(15,997,309)	(2,665,899)	(1,564,414)	(2,708,348)	-	(22,935,970)
Inter-segment net interest income/(expenses)	676,247	(268,556)	(31,322)	(376,369)	-	-
Net interest income	6,981,675	2,430,476	837,034	2,375,531	-	12,624,716
Net fee and commission income	1,371,174	394,706	165,608	406,460	-	2,337,948
Net trading gains/(losses)	1,852,151	205,680	463,962	246,986	-	2,768,779
Net investment income	334,552	22,802	26,344	191,466	-	575,164
Other operating income	179,300	18,169	2,639	89,345	-	289,453
Operating income	10,718,852	3,071,833	1,495,587	3,309,788	-	18,596,060
Operating expenses	(3,366,918)	(775,142)	(525,725)	(904,081)	-	(5,571,866)
– Depreciation and amortisation	(249,972)	(26,841)	(7,455)	(36,834)	-	(321,102)
ECL on assets	(1,789,199)	(1,754,386)	(545,434)	(989,457)	-	(5,078,476)
Profit before income tax	5,562,735	542,305	424,428	1,416,250	-	7,945,718
Capital expenditure	483,234	66,746	53,823	152,744	-	756,547
	June 30, 2018					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	Total
Segment assets	1,839,442,363	255,381,694	129,021,338	263,106,317	(862,528,430)	1,624,423,282
Unallocated assets						7,748,402
Total assets						1,632,171,684
Segment liabilities	(1,753,787,941)	(255,587,135)	(128,321,122)	(260,845,678)	862,528,430	(1,536,013,446)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

42 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	For the six months ended June 30, 2017					
	Yangtze River	Bohai Rim	Pearl River	Midwestern	Elimination	Total
	Delta Region	Region	Delta Region	China		
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	3,901,402	478,372	277,812	432,162	–	5,089,748
Net trading gains/(losses)	(257,775)	(192)	29,594	6,173	–	(222,200)
Net investment income	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	11,583,647	2,460,275	1,030,068	2,874,791	–	17,948,781
Operating expenses	(3,706,281)	(782,613)	(252,243)	(690,223)	–	(5,431,360)
– Depreciation and amortisation	(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	4,812,890	965,939	396,731	1,134,783	–	7,310,343
Capital expenditure	745,919	121,459	7,760	28,098	–	903,236
	December 31, 2017					
	Yangtze River	Bohai Rim	Pearl River	Midwestern	Elimination	Total
	Delta Region	Region	Delta Region	China		
Segment assets	1,813,573,789	245,003,378	100,166,682	257,500,169	(886,858,724)	1,529,385,294
Unallocated assets						7,366,808
Total assets						1,536,752,102
Segment liabilities	(1,735,321,133)	(243,909,753)	(99,556,294)	(255,135,892)	886,858,724	(1,447,064,348)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT

Overview

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 minimise potential adverse effects on the Group's financial performance.

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

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.

43.1 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 interbank 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 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

43.1 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, interest receivable, due from banks and other financial institutions, loans and advances to customers, financial assets measured at amortised cost, financial assets -held-to-maturity, financial assets -debt instruments classified as receivables, due to banks and other financial institutions, interest payable, customer deposits and debt securities issued.

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, financial assets measured at amortised cost, financial assets -held-to-maturity, financial assets -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	June 30, 2018			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets					
Financial assets					
– Amortised cost(i)	400,969,294	–	204,688,293	199,134,459	403,822,752
Total	400,969,294	–	204,688,293	199,134,459	403,822,752
Financial liabilities					
Debt securities issued(ii)	(217,716,561)	–	(214,144,534)	–	(214,144,534)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

43.1 Fair values of financial assets and liabilities *(continued)*

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

	Carrying value	December 31, 2017			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial assets					
– Held-to-maturity	91,562,790	–	89,367,221	–	89,367,221
Financial assets					
– Debt instruments classified as receivables	343,222,781	–	104,098,843	239,226,123	343,324,966
Total	434,785,571	–	193,466,064	239,226,123	432,692,187
Financial liabilities					
Debt securities issued	(190,551,983)	–	(185,610,533)	–	(185,610,533)

(i) Financial assets measured at amortised cost

Financial assets measured at amortised cost 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 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

43.1 Fair values of financial assets and liabilities *(continued)*

(c) Financial instruments measured at fair value

June 30, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
through profit or loss				
– Debt securities	–	51,254,186	–	51,254,186
– Fund investment	–	78,111,533	–	78,111,533
– Trust plans and asset management plans	–	3,130,815	–	3,130,815
– Wealth management products sponsored by other banks	–	2,003,620	–	2,003,620
Derivative financial assets	–	7,886,170	–	7,886,170
Financial assets at fair value through other comprehensive income				
– Debt securities	–	36,493,723	–	36,493,723
– Equity investment	–	–	25,000	25,000
– Other debt investments	–	14,251,722	–	14,251,722
Total	–	193,131,769	25,000	193,156,769
Financial liabilities at fair value				
through profit or loss				
Derivative financial liabilities	–	(5,594,407)	–	(5,594,407)
	–	(8,129,175)	–	(8,129,175)
Total	–	(13,723,582)	–	(13,723,582)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

43.1 Fair values of financial assets and liabilities *(continued)*

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
through profit or loss				
– Debt securities	–	46,344,516	–	46,344,516
Derivative financial assets	–	4,554,086	–	4,554,086
Financial assets – Available-for-sale				
– Debt securities available for sale	–	61,110,773	–	61,110,773
– Fund investment	–	57,018,238	–	57,018,238
– Equity investment	–	–	25,000	25,000
– Trust plans and asset management plans	–	9,744,948	–	9,744,948
Total	–	178,772,561	25,000	178,797,561
Financial liabilities at fair value				
through profit or loss	–	(5,615,590)	–	(5,615,590)
Derivative financial liabilities	–	(5,297,863)	–	(5,297,863)
Total	–	(10,913,453)	–	(10,913,453)

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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

44 FIDUCIARY ACTIVITIES

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

	June 30, 2018	December 31, 2017
Entrusted loans	50,231,870	79,789,738
Entrusted investments	850,000	1,639,460

45 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material events for disclosure after the balance sheet date.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

1 LIQUIDITY RATIOS

	June 30, 2018	December 31, 2017
(Expressed in percentage)		
RMB current assets to RMB current liabilities	44.31	51.61
Foreign currency current assets to foreign currency current liabilities	51.82	28.20

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and China Banking and Insurance Regulatory Commission.

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 bank, due from banks and other financial institutions, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets measured at amortised cost, financial assets available for sale and loans and advances to customers.

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	
June 30, 2018				
Local claims in foreign currencies	14,120,746	–	37,512,197	51,632,943
Asia Pacific excluding Mainland China	10,622,018	397,037	2,582,330	13,601,385
– of which attributed to Hong Kong	10,554,546	397,037	2,582,330	13,533,913
Europe	298,971	–	–	298,971
North America	2,199,978	–	–	2,199,978
Oceania	16,332	–	–	16,332
Total	27,258,045	397,037	40,094,527	67,749,609

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

2 INTERNATIONAL CLAIMS *(continued)*

		Official	Non-bank	
	Bank	sector	private	Total
December 31, 2017				
Local claims in foreign currencies	8,873,987	–	39,831,771	48,705,758
Asia Pacific excluding Mainland China	74,968	–	4,050,331	4,125,299
– of which attributed to Hong Kong	45,572	–	4,050,331	4,095,903
Europe	739,598	–	–	739,598
North America	2,331,328	–	–	2,331,328
Oceania	98,514	–	–	98,514
Total	12,118,395	–	43,882,102	56,000,497

3 CURRENCY CONCENTRATIONS

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
June 30, 2018				
Spot assets	49,430,444	16,280,690	2,241,605	67,952,739
Spot liabilities	(66,562,122)	(511,621)	(6,315,423)	(73,389,166)
Forward purchases	70,067,564	5,141,125	48,896,767	124,105,456
Forward sales	(55,622,041)	(748,974)	(44,668,445)	(101,039,460)
Net options position	276,806	–	535,887	812,693
Net long/(short) position	(2,409,349)	20,161,220	690,391	18,442,262

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
December 31, 2017				
Spot assets	57,536,972	586,346	4,531,999	62,655,317
Spot liabilities	(71,938,375)	(248,220)	(3,143,966)	(75,330,561)
Forward purchases	65,841,403	–	3,217,462	69,058,865
Forward sales	(4,427,354)	(7,564,302)	(71,413,466)	(83,405,122)
Net options position	528,476	–	(4,050)	524,426
Net long/(short) position	47,541,122	(7,226,176)	(66,812,021)	(26,497,075)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2018
(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

	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	4,392,282	39.90	1,168,584	16.25
Between 3 and 6 months	912,538	8.29	1,153,107	16.04
Between 6 and 12 months	1,903,448	17.29	2,435,770	33.88
Over 12 months	3,800,785	34.52	2,431,965	33.83
Total	11,009,053	100.00	7,189,426	100.00

(2) Overdue and rescheduled loans and advances to customers

	June 30, 2018	December 31, 2017
Total rescheduled loans and advances to customers	1,641,393	319,099
Including: rescheduled loans and advances to customers overdue for not more than 3 months	40,180	269,597
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.01%	0.04%

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