



徽商銀行股份有限公司

Huishang Bank Corporation Limited

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

Stock Code : 3698



2015 Interim Report

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Definitions

In this interim report, unless the context otherwise specifies, the following terms shall have the meaning set out below.

“Bank” or “Huishang Bank”	means Huishang Bank Corporation Limited, including its subsidiaries, branches and sub-branches
“CBRC”	means the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBRC Anhui Office”	means the China Banking Regulatory Commission Anhui Office (中國銀行業監督管理委員會安徽監管局)
“CSRC”	means the China Securities Regulatory Commission (中國證券監督管理委員會)
“Domestic Shares”	means ordinary shares issued by the Bank in the PRC, with a nominal value of RMB1.00 per share
“HK\$” or “Hong Kong dollars”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Listing”	means the listing of H shares of the Bank on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	means the date on which dealings in the H shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Non-green Industries”	means the heavily-polluting, highly energy-consuming and over-capacity industries
“PBOC”	means the People’s Bank of China
“PRC”	means the People’s Republic of China
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“Yuan” or “RMB”	means Renminbi, the lawful currency of China. Unless otherwise specifies, any monetary amount referred to in this report will be Renminbi

Chapter I Corporate Information

1.1 CORPORATE BASIC INFORMATION

- 1.1.1 Statutory Chinese name: 徽商銀行股份有限公司
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Li Hongming
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Board secretary: Yi Feng
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
Tel: +86-0551-62667787
Fax: +86-0551-62667787
Post code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Certified public accountant: PricewaterhouseCoopers
22/F, Prince's Building, Central, Hong Kong
- 1.1.7 Legal advisor as to PRC laws: King & Wood Mallesons
Legal advisor as to Hong Kong laws: Latham & Watkins
- 1.1.8 Domestic Shares trustee agency: China Securities Depository and Clearing Corporation Limited
H Share registrar: Computershare Hong Kong Investor Services Limited
- Note: Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), is not subject to the supervision of the Hong Kong Monetary Authority, and is not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited at the end of 2005. On 28 December 2005, the Bank officially merged with 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, the Bank was listed on the Main Board of the Hong Kong Stock Exchange. The Bank holds a financial institution license numbered B0162H234010001 from CBRC Anhui Office and a legal entity business license numbered 340000000026144 from Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC. As of 30 June 2015, the registered capital of Huishang Bank was RMB11,050 million.

The Bank's principal activities include taking of deposits from corporate and retail customers, using such deposits to finance its loans and funds business, which mainly encompass money market activities, investment and trading activities and transactions on behalf of customers in the PRC. As of 30 June 2015, Huishang Bank had 6,860 on-the-job employees. Apart from the headquarters, the Bank had 279 branches and sub-branches (including 17 branches and 262 sub-branches) and 517 self-service areas. The Bank also has three subsidiaries, Huiyin Finance Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd, and Wuwei Huiyin County Bank Co., Ltd. and holds shares in Chery Huiyin Motor Finance Service Co., Ltd.

1.3 AWARDS FOR THE FIRST HALF OF 2015

During the first half of 2015, the Bank has won numerous accolades and awards in contests organized by domestic authorities:

- ◆ In February, the Bank was awarded the "2014 Outstanding Sponsors of Asset-backed Securities in China's Bond Market" by China Central Depository & Clearing Co. Ltd.;
- ◆ In February, the Bank was awarded the "2014 Outstanding Dealers in China's Bond Market" in the selection of Outstanding Members in China's Bond Market in 2014 as organized by China Central Depository & Clearing Co. Ltd.;
- ◆ In April, the Bank was awarded the first place in the review of the 2014 payment and settlement of financial institutions in Anhui Province as organized by the Hefei Central Sub-branch of the PBOC;
- ◆ In April, the Bank was promoted to be an "A-class" financial institution of the highest rank in the evaluation of financial institutions of Anhui Province on implementing relevant provisions of the PBOC as organized by the Hefei Central Sub-branch of PBOC;
- ◆ In April, the Bank was awarded grade A in the 2014 Anhui offsite supervision evaluation of anti-money laundering as organized by the Hefei Central Sub-branch of the PBOC;
- ◆ In May, the Bank was rated "green card" in the 2014 Anhui banking industry and financial institution supervision evaluation of case-prevention as organized by the CBRC Anhui Office;
- ◆ In May, the Bank was awarded the "Unionpay Credit Card Business Service Prize", "2014 Unionpay Installment Business Advanced Prize" and "Official Card Business Advanced Prize" in the 2014 Unionpay card competition among regional banking institutions as organized by China Unionpay Organization;
- ◆ In May, the Bank was awarded the "2015 Best Direct Sales Bank of China (Anhui)" at the 2015 China (Anhui) internet finance development conference held by Xinan Evening News.

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

	<i>In millions of RMB</i>		
			Changes over the corresponding period of the previous year
	January to June 2015	January to June 2014	+ / (-) (%)
Results of operation			
Net operating income ⁽¹⁾	7,707	6,000	28.45
Profit before income tax	4,005	3,731	7.34
Net profit attributable to shareholders of the Bank	3,067	2,839	8.03

	<i>RMB</i>		
			Changes over the corresponding period of the previous year
	January to June 2015	January to June 2014	+ / (-) (%)
By per share			
Basic earnings attributable to shareholders of the Bank	0.28	0.26	7.69
Diluted earnings attributable to shareholders of the Bank	0.28	0.26	7.69
Net assets attributable to shareholders of the Bank as at the end of the period	3.41	3.01	13.29

	<i>In millions of RMB</i>		
			Changes over the end of the previous year
	30 June 2015	31 December 2014	+ / (-) (%)
Scale indicators			
Total assets	575,156	482,764	19.14
Including: Total loans and advances	241,983	219,396	10.30
Total liabilities	536,257	446,211	20.18
Including: Total deposits from customers	349,427	317,870	9.93
Equity attributable to shareholders of the Bank	37,734	36,374	3.74

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trade income, net income from investment in securities, as well as other net operating income, excluding net income from investment in associates.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

Profitability indicators ⁽¹⁾	January to	January to	January to	Changes over the
	June 2015	December 2014	June 2014	corresponding period of the previous year + / (-)
Return on average assets ("ROAA") after tax attributable to shareholders of the Bank	1.16	1.31	1.38	-0.22
Return on average equity ("ROAE") after tax attributable to shareholders of the Bank	16.55	16.68	17.50	-0.95
Net interest spread	2.46	2.47	2.34	0.12
Net interest margin	2.68	2.74	2.63	0.05

% accounted for net operating income	January to	January to	January to	Changes over the
	June 2015	December 2014	June 2014	corresponding period of the previous year + / (-)
- Net interest income	86.93	89.60	89.35	-2.42
- Net non-interest income ⁽²⁾	13.07	10.40	10.65	2.42
Cost-to-income ratio (including business tax and surcharges) ⁽³⁾	25.24	33.08	30.58	-5.34

Asset quality indicators	30 June	31 December	30 June	Changes over
	2015	2014	2014	the end of the previous year + / (-)
Non-performing loan ratio	0.97	0.83	0.67	0.30
Allowance to non-performing loan ratio	233.88	255.27	323.52	-89.64
Allowance to loans ratio	2.27	2.13	2.16	0.11

Capital adequacy indicators	30 June	31 December	30 June	Changes over
	2015	2014	2014	the end of the previous year + / (-)
Core tier I capital adequacy ratio	9.70	11.50	12.43	-2.73
Capital adequacy ratio	11.24	13.41	14.68	-3.44
Total equity to total assets	6.76	7.57	7.52	-0.76

Notes: (1) The ratios are annualized;

(2) Net non-interest income in this indicator comprises net fee and commission income, net trade income, net income from investment in securities, dividend income and other net operating income, excluding net income from investment in joint ventures and associates;

(3) Cost-to-income ratio = Operating expenses/Operating income.

Chapter III Management Discussion and Analysis

3.1 OVERALL BUSINESS REVIEW

Facing complex external conditions and increasingly fierce competition among peer banks during the first half of 2015, the Bank made efforts to overcome various adverse factors by focusing on quality and efficiency and having transformational development and structural adjustment as the main line. All these led to a steady expansion of our business scale and continuous improvement in profitability, realizing a stable growth in our various business segments and continuous improvement in our operation and management. Among these:

Our assets and liabilities grew moderately. As at the end of June 2015, the total assets of the Bank increased by RMB92,392 million or 19.14% as compared with the end of last year to RMB575,156 million. Gross loans and advances increased by RMB22,587 million or 10.30% as compared with the end of last year to RMB241,983 million. Total deposits from customers were RMB349,427 million, representing an increase of RMB31,557 million or 9.93% as compared with the end of last year.

Non-performing assets climbed while allowance coverage maintained stable. As of the end of June 2015, the balance of the Bank's non-performing loans was RMB2,350 million, representing an increase of RMB524 million as compared with the end of last year. Non-performing loan ratio was 0.97%, representing an increase of 0.14 percentage point as compared with the end of last year. Allowance to non-performing loan ratio was 233.88%, representing a decrease of 21.39 percentage points as compared with the end of last year.

3.2 ANALYSIS OF INCOME STATEMENT

3.2.1 Particulars of financial performance

	<i>In millions of RMB</i>	
	January to June 2015	January to June 2014
Net interest income	6,700	5,361
Net fee and commission income	902	468
Other net income	105	172
Operating expenses	1,945	1,835
Share of profits of associates	50	39
Impairment losses on assets	1,807	474
Profit before income tax	4,005	3,731
Income tax	932	890
Net profit	3,073	2,840
Net profit attributable to shareholders of the Bank	3,067	2,839

From January to June 2015, the Bank realized a profit before income tax of RMB4,005 million, representing an increase of 7.34% as compared with the same period of last year. The effective income tax rate was 23.27%, representing a decrease of 0.58 percentage point as compared with the same period of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.2 Net Operating Income

From January to June 2015, the Bank had a net operating income of RMB7,707 million, representing a year-on-year increase of 28.43%. Among which, the net interest income accounted for 86.37%, representing a year-on-year decrease of 2.39 percentage points; the net non-interest income accounted for 13.63%, representing a year-on-year increase of 2.39 percentage points.

	January to June 2015 (%)	January to June 2014 (%)	January to June 2013 (%)
Net interest income	86.37	88.76	91.87
Net fee and commission income	11.63	7.74	5.70
Other net income	1.35	2.85	1.96
Income from investment in joint ventures and associates	0.65	0.65	0.47
Total	100.00	100.00	100.00

Note: Such analysis of net operating income comprises of income from investment in joint ventures and associates; other net income including net trade income, net income from investment in securities, dividend income and net other operating income.

3.2.3 Net interest income

From January to June 2015, the Bank's net interest income amounted to RMB6,700 million, representing an increase of 24.98% as compared with the same period of last year, which was mainly due to an increase in the scale of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/interest expenses and annualized average yield/average cost of the Bank for the period indicated. The average balances of interest-earning assets and interest-bearing liabilities represented the daily average balances.

	January to June 2015			January to December 2014			In millions of RMB, except percentages January to June 2014		
	Average balance	Interest income	Annualized	Average balance	Interest income	Average	Average balance	Interest income	Annualized
			average yield %			yield %			average yield %
Interest-earning assets									
Loans and advances	233,131	7,914	6.79	204,783	14,273	6.97	201,757	7,004	6.94
Bond investments	117,812	3,033	5.15	75,829	3,684	4.86	69,256	1,531	4.42
Cash and balances with the central bank	58,595	443	1.51	57,350	872	1.52	56,220	430	1.53
Deposits and placements in banks and other financial institutions	90,760	2,056	4.53	78,756	4,228	5.37	80,790	2,340	5.79
Financial Leasing	279	8	5.73	-	-	-	-	-	-
Total interest-earning assets and interest income	500,577	13,454	5.38	416,718	23,057	5.53	408,023	11,305	5.54

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

In millions of RMB, except percentages

	January to June 2015			January to December 2014			January to June 2014		
	Average balance	Interest income	Annualized average yield %	Average balance	Interest income	Average yield %	Average balance	Interest income	Annualized average yield %
Interest-bearing liabilities									
Borrowings from the central bank ⁽¹⁾	94	1	3.14	-	-	-	7	0	3.25
Deposits from customers	309,132	3,388	2.19	278,013	6,361	2.29	268,100	3,141	2.34
Deposits and placements from banks and other financial institutions	122,092	2,563	4.20	91,241	4,707	5.16	94,924	2,564	5.40
Debt securities issued	32,548	802	4.93	10,752	566	5.26	8,987	239	5.32
Total interest-bearing liabilities and interest expenses	463,866	6,754	2.91	380,006	11,634	3.06	372,018	5,944	3.20
Net interest income	/	6,700	/	/	11,423	/	/	5,361	/
Net interest spread	/	/	2.46	/	/	2.47	/	/	2.34
Net interest margin	/	/	2.68	/	/	2.74	/	/	2.63

Note: (1) Annualized average yield of borrowings from the central bank was calculated in thousands of yuan during January to June 2014 and January to June 2015.

From January to June 2015, the net interest spread of the Bank was 2.46%, representing a decrease of 0.01% as compared with the end of last year. The annualized average yield of interest-earning assets was 5.38%, while annualized average cost ratio of interest-bearing liabilities was 2.91%.

From January to June 2015, the net interest margin of the Bank was 2.68%, representing a decrease of 0.06 percentage point as compared with the end of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest for the period indicated. The changes in scale were measured by the changes of average balance (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The changes in interest income and expenses resulting from the changes in scale and interest rate were recognized in the amount incurred by the effect of the changes in interest rate on the changes in interest income and expenses.

	<i>In millions of RMB</i>		
	January to June 2015 vs. January to June 2014		
	Increase/(decrease) due to		Net increase
	Scale	Interest rate	(decrease)
Assets			
Loans and advances	1,089	-179	910
Bond investments	1,073	429	1,502
Balances with the central bank	18	-5	13
Deposits and placements in banks and other financial institutions	289	-573	-284
Financial Leasing	-	8	8
Changes in interest income	2,469	-320	2,149
Liabilities			
Borrowings from the central bank	1	-	1
Deposits from customers	481	-234	247
Deposits and placements from banks and other financial institutions	734	-735	-1
Debt securities issued	627	-64	563
Changes in interest expenses	1,843	-1,033	810
Changes in net interest income	626	713	1,339

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.4 Interest income

From January to June 2015, the Bank recorded an interest income of RMB13,454 million, representing an increase of 19.01% as compared with the same period of last year, which was mainly due to the expansion in the scale of interest-earning assets. Interest income from loans and advances still constituted the majority of the interest income of the Bank.

Interest income from loans

From January to June 2015, the interest income from loans and advances of the Bank was RMB7,914 million, representing an increase of RMB910 million or 12.99% as compared with the same period of last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the period indicated.

In millions of RMB, except percentages

	January to June 2015			January to June 2014		
	Average balance	Interest income	Annualized average yields %	Average balance	Interest income	Annualized average yields %
Corporate loans	162,430	5,766	7.10	139,009	4,940	7.11
Retail loans	57,842	1,774	6.13	52,830	1,666	6.31
Discounted bills	12,859	374	5.82	9,918	398	8.03
Loans and advances	233,131	7,914	6.79	201,757	7,004	6.94

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.5 Interest expenses

From January to June 2015, the interest expense of the Bank was RMB6,754 million, representing an increase of RMB811 million or 13.65% as compared with the same period of last year, which was primarily attributable to an increase in the scale and the change in the structure of interest-bearing liabilities.

Interest expense on deposits from customers

From January to June 2015, the Bank's interest expense on deposits from customers was RMB3,388 million, representing an increase of RMB247 million or 7.86% as compared with the same period of last year, which was primarily attributable to a 15.30% increase in the average balance of deposits from customers as compared with the same period of last year.

The following table sets forth the average balances, interest expenses and annualized average cost ratio of the Bank's corporate deposits and personal deposits for the period indicated.

In millions of RMB, except percentages

	January to June 2015			January to June 2014		
	Average balance	Interest expense	Annualized average yields %	Average balance	Interest Expense	Annualized average yields %
Corporate deposits from customers						
Demand deposits	117,189	473	0.81	99,374	378	0.76
Time deposits	89,735	1,783	3.97	72,266	1,976	5.47
Sub-total	206,924	2,256	2.18	171,640	2,354	2.74
Personal deposits from customers						
Demand deposits	27,911	61	0.44	26,340	51	0.39
Time deposits	40,030	670	3.35	33,110	539	3.26
Sub-total	67,941	731	2.15	59,450	590	1.98
Others	34,267	401	2.34	37,010	197	1.06
Total deposits from customers	309,132	3,388	2.19	268,100	3,141	2.34

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.6 Net non-interest income

From January to June 2015, the Bank recorded a net non-interest income of RMB1,057 million, representing an increase of RMB378 million or 55.67% as compared with the same period of last year.

The table below sets out the main components of net non-interest income as of the period indicated.

	<i>In millions of RMB</i>	
	January to June 2015	January to June 2014
Fee and commission income	946	508
Less: Fee and commission expenses	44	40
Net fee and commission income	902	468
Other net non-interest income⁽¹⁾	155	211
Total net non-interest income	1,057	679

Note: (1) Comprises net trade income, net income from investment in securities, dividend income, other net operating income and net income from investment in associates.

3.2.7 Net fee and commission income

From January to June 2015, net fee and commission income of the Bank was RMB902 million, representing an increase of RMB434 million or 92.74% as compared with the same period of last year, which was primarily attributable to an increase in commissions from custodian and other fiduciary activities, bank card fees, as well as consultancy and advisory fees.

The following table sets forth the principal components of the Bank's net fee and commission income for the period indicated.

	<i>In millions of RMB</i>	
	January to June 2015	January to June 2014
Fee and commission income	946	508
Bank card fees	100	70
Settlement and clearing fees	55	52
Agency services fees	14	14
Consultancy and advisory fees	104	86
Guarantee and commitment fees	24	23
Custodian and other fiduciary service commissions	562	189
Others ⁽¹⁾	87	74
Fee and commission expenses	(44)	(40)
Net fee and commission income	902	468

Note: (1) Mainly includes syndicated loan fees, domestic factoring fees and arrangement fees for international trade financing.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.8 Other net non-interest income

From January to June 2015, other net non-interest income was RMB155 million, representing a decrease of RMB56 million, or 26.54%, which was mainly due to a decrease in other net operating income and net trading income.

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

	<i>In millions of RMB</i>	
	January to June 2015	January to June 2014
Net income from investment in securities	60	42
Dividend income	0	–
Net trading income	(2)	48
Net income from investment in associates	50	39
Other net operating income	47	82
Total other net income	155	211

3.2.9 Operating expenses

From January to June 2015, operating expenses of the Bank were RMB1,945 million, representing an increase of 5.99% as compared with the same period of last year, which was primarily attributable to various extents of increase in business tax and surcharges, depreciation and amortization, as well as lease expenses as a result of factors including business expansion.

The following table sets forth the principal components of the Bank's operating expenses for the period indicated.

	<i>In millions of RMB</i>	
	January to June 2015	January to June 2014
Staff costs	694	787
Business tax and surcharges	602	448
Depreciations and amortization	155	133
Lease expenses	106	89
Other general and administrative expenses	388	378
Total operating expenses	1,945	1,835

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.10 Asset impairment losses

In the first half of 2015, the Bank's allowance to asset impairment losses was RMB1,807 million, representing an increase of 281.22% as compared with the same period of last year.

	<i>In millions of RMB</i>	
	30 June 2015	30 June 2014
Loans and advances to customers		
– collectively-assessed	(832)	(344)
– individually-assessed	(695)	(130)
Available-for-sale financial assets	(13)	–
Investments classified as receivables	(238)	–
Other receivables	(29)	–
Total	(1,807)	(474)

3.3 BALANCE SHEET ANALYSIS

3.3.1 Assets

As of 30 June 2015, the Bank's total assets amounted to RMB575,156 million, representing an increase of 19.14% as compared with the end of 2014. The increase in total assets was primarily due to an increase in investments, as well as assets such as loans and advances.

Items	<i>In millions of RMB, except percentages</i>			
	30 June 2015	% of the total	31 December 2014	% of the total
Total loans and advances	241,983	42.06%	219,396	45.45%
Provision for loan impairment losses	(5,496)	(0.96%)	(4,662)	(0.97%)
Net loans and advances	236,487	41.10%	214,734	44.48%
Investments	185,642	32.28%	112,356	23.28%
Cash	1,152	0.20%	1,068	0.22%
Balances with the central bank	68,657	11.94%	75,353	15.61%
Deposits in banks and other financial institutions	13,461	2.34%	11,352	2.35%
Inter-bank loans and financial assets purchased under resale agreement	59,995	10.43%	62,434	12.93%
Fixed assets	1,477	0.26%	1,415	0.29%
Deferred income tax assets	1,007	0.18%	956	0.20%
Other assets*	7,278	1.27%	3,096	0.64%
Total assets	575,156	100.00%	482,764	100.00%

* Disclosed under the item of "investment in associates" for 2014, but not consolidated and included under "other assets" for this year.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances

As of 30 June 2015, the Bank's total loans and advances amounted to RMB241,983 million, representing an increase of 10.30% as compared with the end of last year, and the total loans and advances accounted for 42.06% of the Bank's total assets, down 3.39 percentage points from the end of last year.

Distribution of loans by product types

The following table sets forth information on the Bank's loans and advances by product types as of the date indicated.

Items	<i>In millions of RMB, except percentages</i>			
	30 June 2015		31 December 2014	
	Amount	% of the total	Amount	% of the total
Corporate loans	165,506	68.40%	149,222	68.02%
Discounted bills	16,855	6.96%	13,580	6.19%
Retail loans	59,622	24.64%	56,594	25.79%
Total loans and advances	241,983	100.00%	219,396	100.00%

Corporate loans

As of 30 June 2015, the Bank's total corporate loans amounted to RMB165,506 million, representing an increase of 10.91% as compared with the end of last year, accounted for 68.40% of the total loans and advances of the Bank, which increased by 0.39 percentage point as compared with the end of last year. During the first half of 2015, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted its total loan amount, thoroughly adjusted its loan structure, and systemically prevented various risks, which achieved simultaneous optimization of corporate loan structure and risk return.

Discounted bills

As of 30 June 2015, the Bank's total discounted bills amounted to RMB16,855 million, representing an increase of 24.12% as compared with the end of last year. Since this year, according to regulatory requirements, the Bank has improved the comprehensive return of bill assets through ways such as adjusting the loan scale with discount, optimizing the loan structure, accelerating the turnover and centralizing operation in order to control the total amount of loans within an appropriate level.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances (Continued)

Retail Loans

As of 30 June 2015, the Bank's total retail loans amounted to RMB59,622 million, representing an increase of 5.35% as compared with the end of last year, accounted for 24.64% of the total loans and advances, representing a decrease of 1.16 percentage points from the end of last year.

In millions of RMB, except percentages

Items	30 June 2015		31 December 2014	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	41,906	70.28%	40,070	70.80%
Personal business revolving loans	10,616	17.81%	10,420	18.41%
Others	7,100	11.91%	6,104	10.79%
Total retail loans	59,622	100.00%	56,594	100.00%

3.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in RMB and foreign currencies, including financial assets held for trading, derivative financial assets, available-for-sale financial assets, held-to-maturity financial assets and financial assets classified as receivables.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification.

In millions of RMB, except percentages

Items	30 June 2015		31 December 2014	
	Amount	% of the total	Amount	% of the total
Financial assets held for trading	4,993	2.69%	2,964	2.64%
Derivative financial assets	3	0.00%	2	0.00%
Available-for-sale financial assets	55,737	30.02%	71,572	63.70%
Held-to-maturity financial assets	31,634	17.04%	30,021	26.72%
Financial assets classified as receivables	93,275	50.25%	7,797	6.94%
Investments	185,642	100.00%	112,356	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets held for trading

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank.

	<i>In millions of RMB</i>	
	30 June 2015	31 December 2014
Chinese government bonds	566	532
Financial institutions	4,134	1,883
Corporate	293	549
Total financial assets held for trading	4,993	2,964

The Bank was prudently optimistic about the performance of the bond market in the second half of the year. The Bank took the appropriate opportunity in the first half of the year to increase the holding of some trading bonds and conduct range trading for the purpose of earning spread income.

Available-for-sale investments

As of 30 June 2015, the balance of the Bank's available-for-sale investments decreased by 22.12% from the end of 2014 to RMB55,737 million. Such investment was mainly based on the structure of assets and liabilities and the needs to improve business performance.

In the first half of 2015, the macro economy continued to slow down accompanied by a low inflation rate. The PBOC maintained its prudent monetary policy and made timely and appropriate fine-tuning. As a result, the overall liquidity remained loose. In response to market environment, the Bank proactively took advantage of the market opportunities, increased the scope and set up of investments, and continued optimizing the structure of its investment portfolio, which achieved relatively outstanding results in its investments.

The following table sets forth the components of available-for-sale investments of the Bank.

	<i>In millions of RMB</i>	
	30 June 2015	31 December 2014
Chinese government bonds	10,290	10,590
Financial bonds	10,146	12,554
Corporate bonds	4,874	6,438
Fund trust scheme and asset management scheme	30,430	41,755
Interbank certificates of deposits	218	444
Equity securities	10	10
Total available-for-sale investments	55,968	71,791
Provision for impairment	(231)	(219)
Net available-for-sale investments	55,737	71,572

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Held-to-maturity investments

As of 30 June 2015, the balance of held-to-maturity investments held by the Bank increased by RMB1,613 million or 5.37% as compared with the end of last year. Held-to-maturity investments will be held in the long run for our investment strategy. During the first half of 2015, based on the requirements of the bank account interest rate risk management, the Bank increased the proportion of fixed-rate bonds when bond market yield was high, mainly focusing on Chinese government bonds.

	<i>In millions of RMB</i>	
	30 June	31 December
	2015	2014
Chinese government bonds	15,996	12,356
Financial bonds	11,126	11,545
Corporate bonds	4,512	6,019
Interbank certificates of deposit	–	101
Total held-to-maturity investments	31,634	30,021

Loans and investments classified as receivables

Loans and investments classified as receivables consist of the Bank's investment in wealth management products, asset management schemes by securities firms or trust companies, and certificates of Chinese government bonds. There is no open market for these investments. During the first half of 2015, due to the relatively sufficient market liquidity as a whole, the Bank specifically increased its investments in asset management schemes to enhance its return on investments.

	<i>In millions of RMB</i>	
	30 June	31 December
	2015	2014
Government bonds	126	113
Wealth management products	11,787	3,046
Fund trust scheme and asset management scheme	81,600	4,638
Total loans and investments classified as receivables	93,513	7,797
Provision for impairment	(238)	–
Net loans and investments classified as receivables	93,275	7,797

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Carrying value and market value

All bond investments classified as financial assets held for trading or available-for-sale investments are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the held-to-maturity investments and loans and investments classified as receivables in the Bank's portfolio as of the date indicated.

	30 June 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity investments	31,634	31,920	30,021	29,957
Loans and investments classified as receivables	93,275	93,264	7,797	7,776

In millions of RMB

Subsidiaries and major joint stock companies

Name	Initial investment amount (in thousands of RMB)	Percentage of shareholdings (%)	Number of shares held at the end of the period (Share)	Carrying value at the end of the period (in thousands of RMB)	Sources of shares held	Note
Jinzhai Huiyin Rural Bank Co., Ltd.	32,800	41	32,800	32,800	Promotion	Controlling
Huiyin Finance Leasing Co., Ltd.	1,020,000	51	1,020,000	1,020,000	Promotion	Controlling
Wuwei Huiyin County Bank Co., Ltd.	40,000	40	40,000	85,513	Promotion	Controlling
Chery Huiyin Motor Finance Service Co., Ltd.	100,000	20	200,000	375,893	Promotion	Participation

Note: On 15 June 2013, the Bank entered into the Acting-in-concert Declaration with Anhui Jinan Stainless Steel Casting Co. Ltd. (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), Anhui Heyi Food Co. Ltd. (holding 9% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Guan Houlong (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), pursuant to which such shareholders will act in concert with the Bank in voting when dealing with material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd. As such, the Bank has effective control over Jinzhai Huiyin Rural Bank Co., Ltd., and, in turn, Jinzhai Huiyin Rural Bank Co., Ltd. is a subsidiary in which the Bank has a controlling interest.

In 2010, the Bank invested and established Wuwei Huiyin Rural Bank Co., Ltd. Its registered capital was RMB100 million, of which the Group contributed RMB40 million, accounting for 40% shareholding. Upon the approval from the CBRC, Wuwei Huiyin Rural Bank Co., Ltd. officially opened for business on 8 August 2010. Although the Bank has no absolute controlling interest over it, after taking into full account of various factors, the recent operating activities indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has effective control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd in its consolidated financial statements on 31 December 2014.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities

As of 30 June 2015, the total liabilities of the Bank amounted to RMB536,257 million, representing an increase of 20.18% as compared with the end of last year, which was mainly due to steady growth of deposits from customers, deposits from banks and other financial institutions.

In millions of RMB, except percentages

Items	30 June 2015		31 December 2014	
	Amount	% of the total	Amount	% of the total
Loans from the central bank	160	0.03%	107	0.02%
Deposits from banks and other financial institutions	64,957	12.11%	24,430	5.48%
Placements from banks and other financial institutions	2,083	0.39%	1,682	0.38%
Derivative financial liabilities	17	0.00%	2	0.00%
Financial assets sold under repurchase agreements	58,646	10.94%	72,481	16.24%
Deposits from customers	349,427	65.16%	317,870	71.24%
Taxes payable	734	0.14%	825	0.18%
Debt securities issued	50,127	9.35%	18,751	4.20%
Other liabilities	10,106	1.88%	10,063	2.26%
Total liabilities	536,257	100.00%	446,211	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities (Continued)

Deposits from customers

The Bank has long focused on actively expanding its deposit business. In 2015, despite increasingly intense competition among its peers, the Bank managed to maintain a steady growth in its deposits from customers through various effective measures. As of 30 June 2015, the Bank's total deposits from customers amounted to RMB349,427 million, representing an increase of 9.93% from the end of 2014, and accounted for 65.16% of the total liabilities of the Bank.

The following table sets forth customer deposits of the Bank by product types and customer types as of the dates indicated.

Items	30 June 2015		31 December 2014	
	Balance	% of the total	Balance	% of the total
<i>In millions of RMB, except percentages</i>				
Corporate Deposits				
Demand deposits	117,184	33.53%	114,346	35.97%
Time deposits	112,681	32.25%	94,699	29.79%
Subtotal	229,865	65.78%	209,045	65.76%
Retail Deposits				
Demand deposits	30,974	8.86%	28,152	8.86%
Time deposits	54,807	15.69%	45,892	14.44%
Subtotal	85,781	24.55%	74,044	23.30%
Others	33,781	9.67%	34,781	10.94%
Include: margin deposits	32,895	9.41%	34,427	10.83%
Total deposits from customers	349,427	100.00%	317,870	100.00%

As of 30 June 2015, retail deposits of the Bank accounted for 24.55% of total customer deposits, representing an increase of 1.26 percentage points from the end of 2014.

The Bank's time deposits from customers to total deposits ratio has increased since 2015. As of 30 June 2015, the Bank's demand deposits to total customer deposits ratio was 42.39%, representing a decrease of 2.44 percentage points from the end of 2014. Among them, the proportion of corporate demand deposits to deposits from customers was 33.53%, representing a decrease of 2.44 percentage points from the end of 2014; while the proportion of retail demand deposits to deposits from customers was 8.86%, remaining at the same level as at the end of 2014.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.3 Equity

Items	In millions of RMB	
	30 June 2015	31 December 2014
Share capital	11,050	11,050
Capital reserve	6,751	6,751
Surplus reserve	4,638	4,071
General risk reserve	4,716	3,743
Investment revaluation reserve	(60)	(109)
Retained earnings	10,639	10,868
Total equity attributable to shareholders of the Bank	37,734	36,374
Non-controlling interest	1,165	179
Total equity	38,899	36,553

3.4 LOAN QUALITY ANALYSIS

3.4.1 Distribution of Loans by the Five-Category Classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

	In 100 millions of RMB, except percentages			
	30 June 2015		31 December 2014	
	Amount	% of the total	Amount	% of the total
Pass	2,336.94	96.58	2,130.18	97.10
Special mention	59.39	2.45	45.52	2.07
Substandard	17.93	0.74	15.65	0.71
Doubtful	4.55	0.19	2.13	0.10
Loss	1.02	0.04	0.48	0.02
Gross loans and advances to customers	2,419.83	100.00	2,193.96	100.00
Total non-performing loans	23.50	0.97	18.26	0.83

Under the five-category classification system, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. Affected by the external business environment, the Bank's asset quality faced serious challenges. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained stable quality of assets. As at the end of the Reporting Period, the non-performing loan ratio ("NPL ratio") of the Bank was 0.97%. Although it was 0.14 percentage point higher than that of the end of last year, the Bank was still able to maintain an outstanding position among its peers.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

In 100 millions of RMB, except percentages

	30 June 2015				31 December 2014			
	Amount of loans	% of the total	NPLs	NPL ratio %	Amount of loans	% of the total	NPLs	NPL ratio %
Corporate loans	1,655.06	68.40	19.77	1.19	1,492.22	68.02	15.38	1.03
Working capital loans	906.68	37.47	6.47	0.71	858.01	39.11	7.69	0.90
Fixed assets loans	642.90	26.57	0.00	0.00	577.03	26.30	0.00	0.00
Trade finance	36.46	1.51	0.23	0.63	45.44	2.07	0.13	0.29
Others ⁽¹⁾	69.02	2.85	13.07	18.94	11.74	0.54	7.56	64.40
Discounted bills ⁽²⁾	168.55	6.96	-	-	135.80	6.19	-	-
Retail loans	596.22	24.64	3.73	0.63	565.94	25.79	2.88	0.51
Personal residential mortgages	354.61	14.66	0.57	0.16	345.04	15.72	0.48	0.14
Personal business loans	197.82	8.17	2.46	1.24	187.98	8.57	1.90	1.01
Credit card loans	35.83	1.48	0.59	1.65	25.03	1.14	0.39	1.56
Personal consumption loans	7.96	0.33	0.11	1.38	7.89	0.36	0.11	1.39
Total loans and advances to customers	2,419.83	100.00	23.50	0.97	2,193.96	100.00	18.26	0.83

Notes: (1) Mainly include corporate mortgage loans

(2) Overdue discounted bills are transferred to corporate loans

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

In 100 millions of RMB, except percentages

	30 June 2015				31 December 2014			
	Amount of loans	% of the total	NPLs	NPL ratio %	Amount of loans	% of the total	NPLs	NPL ratio %
Corporate loans	1,655.06	68.40	19.77	1.19	1,492.22	68.01	15.38	1.03
Commerce and services	490.69	20.29	4.96	1.01	419.81	19.15	7.17	1.71
Manufacturing	401.29	16.58	4.29	1.07	409.46	18.66	4.63	1.13
Public utilities	295.08	12.19	–	–	196.00	8.93	–	–
Real estate	156.78	6.48	–	–	165.08	7.52	–	–
Construction	144.36	5.97	0.23	0.16	141.38	6.44	0.47	0.33
Energy and chemical	34.20	1.41	–	–	34.48	1.57	0.10	0.29
Transportation	65.57	2.71	10.15	15.48	62.82	2.86	2.79	4.44
Education and media	18.64	0.77	–	–	19.12	0.87	–	–
Catering and travelling	16.68	0.69	0.11	0.66	15.48	0.71	0.09	0.58
Financial services	9.72	0.40	–	–	8.34	0.38	–	–
Others	22.05	0.91	0.03	0.14	20.25	0.92	0.13	0.64
Discounted bills	168.55	6.96	–	–	135.80	6.19	–	–
Retail loans	596.22	24.64	3.73	0.63	565.94	25.80	2.88	0.51
Total loans and advances to customers	2,419.83	100.00	23.50	0.97	2,193.96	100.00	18.26	0.83

Others: these mainly include the planting, forestry, and livestock industry and the fishery industry.

In the first half of 2015, the Bank's overall credit policies were to strengthen analysis on external economic and financial environment, consistently implement national policies on the industry, the financial sector and regional regulations; to focus on credit operations and put efforts into optimizing credit resources allocation to facilitate product and business innovation and transformation and restructuring of the operations; to adhere to the bottom risk line and strengthen risk controls of key areas and key industries in order to make the credit policies sound and steady. These policies will contribute to the sustainable and sound development of the credit operations of Bank.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated.

In 100 millions of RMB, except percentages

	30 June 2015				31 December 2014				30 June 2014			
	Amount of loans	% of the total	NPLs	NPL ratio %	Amount of loans	% of the total	NPLs	NPL ratio %	Amount of loans	% of the total	NPLs	NPL ratio %
Anhui	2,260.11	93.40	22.78	1.01	2,038.80	92.93	17.53	0.86	1,979.85	93.48	13.74	0.69
Jiangsu	159.72	6.60	0.72	0.45	155.16	7.07	0.73	0.47	138.02	6.52	0.37	0.27
Total loans and advances to customers	2,419.83	100.00	23.50	0.97	2,193.96	100.00	18.26	0.83	2,117.87	100.00	14.11	0.67

The Bank has expanded its business into Nanjing, Jiangsu Province since the beginning of 2009. In the first half of 2015, total loans attributable to Jiangsu Province accounted for 6.60% of the total loans and advances to customers, while NPLs attributable to Jiangsu Province accounted for 3.06% of the Bank's total NPLs.

3.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as of the dates indicated.

In 100 millions of RMB, except percentages

	30 June 2015				31 December 2014			
	Amount of loans	% of the total	NPLs	NPL ratio %	Amount of loans	% of the total	NPLs	NPL ratio %
Collateralized loans	1,286.69	53.17	7.56	0.59	1,166.98	53.19	8.86	0.76
Pledged loans	80.32	3.32	0.92	1.15	76.93	3.51	1.34	1.74
Guaranteed loans	733.80	30.32	5.45	0.74	697.02	31.77	6.03	0.87
Unsecured loans	150.47	6.22	9.57	6.35	117.23	5.34	2.03	1.73
Discounted Bills	168.55	6.97	-	-	135.80	6.19	-	-
Total loans and advances to customers	2,419.83	100.00	23.50	0.97	2,193.96	100	18.26	0.83

During the economic downturn, the Bank focused on the implementation of risk mitigation measures including increasing collaterals to prevent and control risks. As at the end of the Reporting Period, NPL and NPL ratio of loans secured by collaterals, loans secured by pledged assets and guaranteed loans increased as compared with the end of last year due to the effect of an overall economic environment. The Bank has adopted other risk mitigation measures such as improving its guarantee and assets preservation under litigation to deal with NPL risks in a timely manner.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.6 Loans of the top 10 single borrowers

The following table sets forth the loans of the Bank's top 10 single borrowers as of the dates indicated.

In millions of RMB, except percentages

Top 10 borrowers	Industry that borrower belongs to	Amount of loans as of 30 June 2015	Percentage of net capital
A	Public utility	1,200	2.73%
B	Commerce and services	1,050	2.39%
C	Public utility	1,008	2.30%
D	Manufacturing	1,002	2.28%
E	Construction	1,000	2.28%
F	Transportation	997	2.27%
G	Commerce and services	960	2.19%
H	Commerce and services	906	2.06%
I	Transportation	900	2.05%
J	Commerce and services	899	2.05%
Total		9,922	22.60%

3.4.7 Distribution of loans and NPLs by overdue period

The following table sets forth the distribution of loans by overdue period as of the dates indicated.

In millions of RMB, except percentages

	30 June 2015	31 December 2014
Total overdue customers loans and advances listed by duration:		
Less than 3 months	1,970	1,552
3 to 6 months	1,965	458
6 to 12 months	1,083	815
Over 12 months	492	349
Total	5,510	3,174
Less than 3 months	35.74%	48.91%
3 to 6 months	35.66%	14.42%
6 to 12 months	19.67%	25.69%
Over 12 months	8.93%	10.98%
Total	100.00%	100.00%

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.8 Restructuring loans

The Bank had no restructuring loan during the Reporting Period.

3.4.9 Change of allowances for loan impairment

The Bank reviews its loan portfolios to assess impairment loss on a periodic basis. In determining whether there is an impairment loss, the Bank makes judgment as to whether there is any observable data indicating that there is a decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within an individual loan in that portfolio. For assets bearing similar credit risk characteristics and objective evidence of impairment, the management made estimation on the future cash flows of such loan portfolios based on historical loss experience for similar assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed by the Bank regularly to reduce any differences between the estimated impairment loss and the actual loss on loans.

The following table set forth the changes of allowances for impairment on loans to customers.

	<i>In millions of RMB</i>	
	30 June	31 December
	2015	2014
Balance at beginning of the period/year	4,662	4,169
Net allowances for impairment on loans to customers	1,527	978
Unwind of discount interest on allowance	(34)	(35)
Loans written-off	(684)	(488)
Loans collected	24	38
Balance at end of the period/year	5,495	4,662

The Bank adhered to a stable and prudent policy in respect of making provisions. As of the end of the Reporting Period, the balance of allowances for impairment losses on loans of the Bank amounted to RMB5,495 million, representing an increase of RMB833 million as compared with the end of last year. The NPL allowance coverage ratio was 233.88%, representing a decrease of 21.39 percentage points as compared with the end of last year; the allowance-to-loan ratio was 2.27%, representing an increase of 0.14 percentage point as compared with the end of last year.

Chapter III Management Discussion and Analysis

3.5 CAPITAL ADEQUACY RATION ANALYSIS

The Bank continued to optimize its structure and enhance capital management, and satisfied the regulatory requirements of capital adequacy ratio of the CBRC during the Reporting Period.

In the first half of 2015, the Bank calculated the capital adequacy ratio in accordance with the relevant requirements of the "Administrative Measures for the Capital of Commercial Banks" issued by the CBRC. As of 30 June 2015, the Bank's capital adequacy ratio was 11.24%, core Tier 1 capital adequacy ratio was 9.70%, and Tier 1 capital adequacy ratio was 9.70%.

	<i>In millions of RMB</i>	
	30 June	31 December
	2015	2014
Core Tier 1 capital	37,957	36,446
Including: Paid-up capital	11,050	11,050
Capital reserve	6,691	6,642
Total surplus reserve, general and statutory reserve	9,354	7,815
Retained earnings	10,639	10,868
Non-controlling interests	223	71
Regulatory deductions for Tier 1 Capital	(96)	(98)
Core Tier 1 capital, net of deductions	37,861	36,348
Other Tier 1 capital, net of deductions	20	10
Total Tier 1 capital, net of deductions	37,881	36,358
Tier 2 capital	6,014	6,030
Including: Tier 2 capital instruments and premium	2,794	3,194
Surplus loan loss provisions	3,176	2,817
Non-controlling interests	44	19
Total capital, net of deductions	43,895	42,388
Risk-weighted assets	390,399	315,997
Capital adequacy ratio	11.24%	13.41%
Tier 1 capital adequacy ratio	9.70%	11.51%
Core Tier 1 capital adequacy ratio	9.70%	11.50%

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3.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below set forth the segment performance of the Bank by business category as at the periods indicated.

In millions of RMB, except percentages

Items	January to June 2015		January to June 2014	
	Segment profit before tax	Percentage	Segment profit before tax	Percentage
Corporate banking	2,362	58.97%	1,698	45.51%
Retail banking	82	2.05%	890	23.85%
Treasury	1,469	36.68%	1,035	27.74%
Others	92	2.30%	108	2.90%
Total	4,005	100.00%	3,731	100.00%

3.7 OTHERS

3.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letters of guarantee, letters of credit, bank acceptance and bank commitment letters. Commitment letters include loans commitment, operating leases commitment, capital commitment and certificate government bond honor commitments. Loan commitment is the main component of the bank commitment letters. Contingencies and commitments can be found in Note 38 of the financial statements.

3.7.2 Overdue outstanding debt

As of 30 June 2015, the Bank had no overdue outstanding debt.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION

In the first half of 2015, economic recovery in the United States was on track with interest rate rise approaching, whereas the global economy stabilized under the support of 1-trillion euro QE program in Europe. China's economy was still in a downward channel, but showed signs of stabilizing. Under the pressure of overcapacity, the growth rate of manufacturing investment continued to decline, and the growth rate of infrastructure investment dropped from its high level. Impacted by frequent bailout policies, the growth rate of real estate investment rebounded. The growth rate of overall investment remained in a downward trend, lacking growth momentum. Consumption maintained steady growth, and played a stabilizing role in economic growth. However, with weak domestic demand, imports and exports had fallen sharply, the outlook was grim, and the economic downward pressure was still large. In face of the challenges and risks under the "new normal" economy, steady growth policies were frequently implemented to inhibit the economic slowdown and the risk of hard landing. Domestic commercial banks not only faced the pressure of economic downturn, but also the challenges of accelerating interest rate liberalization and flourishing internet finance.

3.8.1 More fiscal and monetary policies coming into force

Facing the economic downward pressure, more proactive fiscal policies and prudent monetary policies came into force. Since the first half of 2015, the central government has made full efforts to revitalize the financial stock funds. The Ministry of Finance granted RMB1 trillion quota for bond swap by local governments to allow local governments to swap existing debts, while strengthening the clearance of certain tax preferential policies of regional authorities to safeguard fiscal support for the steady growth policies. The PBOC had lowered interest rate three times and reduced the requirement of reserve ratio twice, triggering the low interest rate deleveraging mode. As a result, social financing costs had declined, and the market had higher expectation for neutral to slightly loose monetary policies, while benchmark inter-bank rates and benchmark deposit and lending rates had come to a low level. However, the increment of social financing scale continued to decline on a year-on-year basis, and channeling the funds to the real economy was not smooth.

3.8.2 Challenges of internet finance intensified

In his 2015 Government Work Report, Premier Li Keqiang proposed the "Internet Plus" action plan, fully affirming the development of "Internet Plus" mode. At present, internet finance has been fully integrated into people's daily life. People use mobile terminals, such as mobile phones and WeChat, and computer terminals to engage in various activities such as payment, investment, financing and shopping. On the one hand, the concept of internet finance is changing people's way of life. On the other hand, the rapid development of internet finance in recent two years has brought a huge impact on the traditional banking industry. Internet finance models such as third-party payment, P2P, crowdfunding and big data finance are challenging the traditional financial sector, accelerating the process of financial disintermediation. The rapid development of the internet has changed the conventional business model to become more consumer-centric so as to meet the individual needs of consumers.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3.8.3 Complex and dynamic regulatory environment

On 31 March 2015, the State Council formally promulgated the "Deposit Insurance Regulation" which came into effect on 1 May 2015. This will break China's long-standing implicit deposit insurance system of "guarantee for full payment" and "risk-free deposits", thereby promoting sound banking operations and preventing moral risks. On 2 June 2015, the PBOC issued the "Interim Measures for the Administration of Large-Denomination Certificates of Deposit". On the one hand, marketizing the pricing of large-denomination certificates of deposit will intensify the competition among banks for attracting deposits. On the other hand, the transferable large-denomination certificates of deposit will create an alternative for time deposits and some wealth management products, pushing up the cost of deposits. The operating profit of the Bank may be affected to a certain degree. On 24 June 2015 when an Executive Meeting of the State Council was held by Premier Li Keqiang, the "Bill for Amendments to the PRC Law on Commercial Banks (Draft)" was adopted, pursuant to which the requirement that the ratio between the balances of loans and deposits shall not exceed 75% of the regulatory red line will soon be removed. Scraping the loan-to-deposit ratio requirement will relieve the banks' pressure for soliciting deposits, but it does not mean that commercial banks have a free hand on deposit maturity and lending. The banks must strictly adhere to the principles of "safety, liquidity and profitability" in their management and operation.

3.8.4 Integrated operation further expands

In this era of pan-asset management, financial institutions make every effort in managing assets for their customers. Various channels of business are booming, with banks having increasingly obvious intention to break the barriers in their scope of business. Zhou Xiaochuan, Governor of China's central bank, expressed that supporting the stock market is also a means to support the real economy, which triggered a new round of climax for funds entering the market and financial institutions in the banking industry put more and more emphasis on integrated operation. With the State Council promoting new investment-driven models like the PPP (Public Private Partnership) model and industrial investment funds, banks need more business licenses to secure the new bank-government cooperation. In June 2015, the pilot scheme for consumer finance companies was expanded, and the pilot scheme for fund companies in the banking sector was expected to be approved again. Therefore, commercial banks will have more room for development in respect of integrated operation, and play an important role to support the real economy in the era of pan-asset management.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3.8.5 Downside risk to asset quality remains grim

In the context of the economy entering into the new normal, the economic structure is adjusting slowly, which will be reflected in the quality of credit assets to certain extent. During the first half of 2015, the NPL ratio of credit assets in China's banking industry was 1.5%, representing an increase of 0.11% as compared with the first quarter of the year, or 0.25 % as compared with the end of last year, suggesting a continuous decline in the quality of credit assets. In recent years, the continuous cuts in reserve requirement ratio and interest rate had eased liquidity in the market, with the cost of capital gradually declining but not the risk involved. The potential risk in interbank business had increased while the potential risk for interbank assets and customer assets management was also in a rising trend. To tackle asset quality decline, banks generally increased their provision. However, from the data for the first half of 2015, the provision coverage ratio at the end of June was 198.39%, representing a decrease of 13.59% as compared with the end of last quarter or 33.67% as compared with the end of last year, suggesting an increasing risk for the banking operation.

At present, social financing costs remain high and the reserve requirement ratio is significantly higher than international standard, and therefore there is still room to move around in monetary policies in the future.

3.9 BUSINESS OPERATION

3.9.1 Wholesale banking

The Bank's wholesale banking business mainly provides a full range of wholesale financial products and services to corporations, financial institutions and government agencies. During the first half of 2015, while maintaining its advantages in the existing wholesale business, the Bank remained customer-centric in intensifying its adjustment in customer structure and income structure. The Bank also accelerated its integrated operation effectively promoting a fast and healthy development of the wholesale banking business. As of June 30 2015, the Bank's market share of local and foreign currencies corporate deposits has continued to rank first in Anhui Province for seven consecutive years. Transformation businesses such as investment banking, interbank bills, supply chain finance and cash management all achieved rapid growth and were widely recognized by the market.

During the first half of 2015, the Bank continued to grow its wholesale business in the local market of Anhui Province, but also vigorously expanded to markets beyond Anhui Province such as Nanjing, fostering new sources of business growth. At the same time, the Bank strengthened its risk management and control, and comprehensively enhanced the profitability of its assets, promoting the steady growth in both interest income and non-interest income.

Facing new changes in the economic and financial situation, the Bank shall continue to focus on reform and innovation in the second half of 2015. The Bank shall accelerate its structural adjustment and business transformation, further optimizing its business processes, enhancing the quality of its professional services, and making efforts to achieve sustainable and healthy development of the wholesale banking business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio, and mainly include working capital loans, fixed asset loans and other corporate loans (by type of products). During the first half of 2015, with adherence to the principle of supporting real economic and having regard to the national macro-economic policies, the Bank further optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries. At the same time, the Bank effectively controlled the growth of loans in "Non-green" industries. As of 30 June 2015, the balance of the Bank's corporate loans was RMB165,506 million, representing an increase of RMB16,284 million from the beginning of the year.

During the first half of 2015, the Bank orderly pushed forward professional and process-oriented services to small enterprises, endeavored to strengthen its ability in marketing, products specialization and risk management, and continually enhanced the financial services ability for micro and small businesses. The main approaches were:

Firstly, the Bank established a financial products and services system for small businesses to satisfy all requirements of its customers. The Bank launched online self-services loans with flexible borrowing and repayment functions, re-guarantee loans based on the proportion of risks shared by banks and the government, special loans for medium and small import and export enterprises to support industry and rural development, and special loans for industry cluster and other products. The Bank developed regional financial services plans including "Small Business Start-up Loans" and small business refinance loans by combining the characteristics of regional clients with business models. Meanwhile, the Bank launched a small business services platform with the focus on fund settlement and investment and financing assets to provide comprehensive financial services in account management, mobile payment and settlement, liquidity management and personal financial assistance for small business around the clock.

Secondly, the Bank established a specialized and characteristic operating system named "Little Giants" club in order to build up the club's brand image. Through setting up six service platforms in "financial services, collaboration and exchange, project cooperation, policy information, entrepreneur growth and integrity culture", the "Little Giants" club offered a full range of diversified, flexible quality financial services and several value-added services to its member enterprises. After years of hard work, the Bank has now established 22 "Little Giants" clubs, expanding its customer base of quality small enterprises. The Bank launched various types of club activities especially for its member enterprises, continued to optimize the operation of the six platforms of the club and further standardized the operation mode of the club.

Thirdly, the Bank set up a business operating system for small and micro businesses to provide effective support to their business development. Based on the principle of "Geo credit + Credit factory + Expertise", the Bank established business operating system for small and micro businesses to implement planned marketing, establish standardized credit approval procedures, promote settlement within a specified time limit, and achieve risk management and control throughout the process through the cooperation with professional service institutions. Currently, the Bank has established 10 small enterprises business centers and 44 specialty sub-branches for small enterprises to provide professional services to small business customer groups, forming a multi-level network encompassing the head office to branches and sub-branches to serve the urban and county communities.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

Discounted bills

During the first half of 2015, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically followed the pace of bill business development, enhanced the profitability of the bill business, and promoted the healthy development of bill business according to law. As of 30 June 2015, the balance of discounted bills of the Bank amounted to RMB16,855 million, representing an increase of RMB3,275 million as compared with the end of last year.

Corporate deposits

The Bank actively addressed the challenges brought by interest rate liberalization. While focusing on improving the performance of corporate deposits, the Bank gave full play of its strengths in investment banking, cash management, supply chain finance and public wealth management and other transformation businesses, continued to improve the market competitiveness of corporate deposits businesses, strived to expand the sources of low-cost corporate deposits, and further improved the corporate deposit structure. During the first half of 2015, the corporate deposits of the Bank grew steadily. As of 30 June 2015, the balance of corporate deposits of the Bank amounted to RMB229,865 million, representing an increase of RMB20,820 million from the previous year.

Cash management business

Cash management business is a new strategic corporate finance business of the Bank in response to the challenge brought by interest rate liberalization, which covers a variety of comprehensive services plans, including account management, collection and payment management, liquidity management, investment and financing services, risk management and information services. During the first half of 2015, the Bank continued to accelerate production and services innovating in cash management business, striving to provide all-around and comprehensive cash management services for its corporate clients. The reputation and influence of “Zhuo Yue e+(卓越e+)” cash management brand continued to improve. During the first half of 2015, the transaction amount of cash management business amounted to RMB300,000 million, representing an increase of 48% as compared with the same period of last year.

Investment banking business

Lead underwriting of debt financing instruments

Since the Bank obtained the qualification as a Type B lead underwriter for Debt Financing Instruments of Non-financial Enterprises, the Bank actively carried out this business through joint leading underwriting. During the first half of 2015, the Bank successfully registered 4 debt financing instruments with a total registered amount of RMB13.6 billion, and issued 2 debt financing instruments with a total issue amount of RMB900 million, effectively promoting the transformation and development of the business of the Bank.

Credit asset securitization

On 17 March 2015, the Bank made a breakthrough in asset securitization business area through successful bidding the “2015 Fortune Automobile Finance Company Limited’s RMB1 Billion Personal Automobile Pledged Loans Securitization Project”, which is the first credit asset securitization transaction of the Bank as a lead underwriter, and also the first automobile finance asset securitization transaction in Anhui Province, laying a foundation for diversified development of the asset securitization business of the Bank.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

International Business

Leveraging the product platform “Zhi Hui 360” in international business, the Bank has launched over 40 foreign exchange products in 7 categories, including international settlement, trade financing, foreign exchange funds, foreign derivative products, account services, agency banking business and cross-border RMB business, which provides all-around and multi-level financial services in settlement, financing, wealth management and risk prevention, and thus realizes customer resource sharing and product complementary strength with corporate business and small business. The Bank endeavored to serve the local economy and business development in its international business, continued to consolidate customer base, actively expanded service channels, and improved cross-border comprehensive services capabilities as a whole.

As of the end of June 2015, the Bank had 2,662 clients in its international business, representing an increase of 240 clients or 9.91% over the beginning of the year. With continuous expansion of international business client groups, international settlements for clients amounted to USD2,657 million. Sale and purchase of foreign exchange amounted to USD1,673 million. International trade financing amounted to USD555 million. Domestic letters of credit and the financing business thereunder amounted to RMB2,470 million. Core indicators of various international business recorded a steady growth.

During the first half of 2015, the Bank continued to seek product innovation and breakthrough in international business by launching innovative business according to market demand, including export risk participation, overseas loans under domestic guarantees, domestic loans under overseas guarantees and foreign exchange trade matching. As of the end of June 2015, foreign exchange trade matching business amounted to USD480 million; derivative business (including future foreign exchange settlement, forward exchange transactions, foreign exchange swap and RMB foreign exchange swaps) amounted to USD260 million; overseas loans under domestic guarantees amounted to USD91.99 million. Income from international intermediary business amounted to RMB53.55 million, representing a year-on-year increase of 28.50%. The sources of income from foreign exchange business further diversified.

At the end of June 2015, the Bank has established agency banking business relationship with 755 banks in more than 80 countries and regions across six continents and has set up 16 overseas clearing accounts for the main settlement currencies to constantly optimize overseas agency banking structure, improve clearing channels, thus fully meeting customers’ demand for clearing and settlement services.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business

Business overview

During the first half of 2015, through enhancing market expansion, providing innovative financial products and services, accelerating business channel and team building, the Bank actively built wealth management center systems, promoted services designed for different client groups and marketing activities. These efforts have helped to lay down a solid foundation for retail business development of the Bank and improve the performance indicators at a faster speed and constantly enhance regional competitiveness of its retail business.

During the first half of 2015, the Bank's active customer base maintained a steady growth, among which the number of high-value customers grow faster than others. Customer structure was further optimized, and the number of high-value customers continued to increase. As of the end of June 2015, the number of customers with assets of RMB500,000 or above amounted to 26,296, with an increase of 24.14% from the beginning of the year. The number of customers with assets over RMB2 million increased by 27.12% from the beginning of the year. Wealth management business maintained a rapid growth rate, with a significant increase in the sales of wealth management products (WMPs) and further growth of the sales of non-principal-guaranteed WMPs. In addition, the sales of government bonds were in a leading position in the province. The scale of deposit from retail customers expanded rapidly. New indicators of retail deposits and daily average saving deposits hit their record highs for the period. The scale of retail loan business continued to grow while pricing level of personal loan continued to improve.

Income from bank card fees amounted to RMB100.42 million during the first half of 2015, representing a year-on-year increase of RMB30.03 million or 42.66%, which were primarily affected by a rapid growth of the income generated from the promotional campaigns of bank card consumptions and credit card installments.

During the second half of 2015, under the strong impact from interest rate liberalization and internet finance, the pressures of retail business of the Bank will become more acute. The Bank will, through improving the retail business philosophy, management, innovation and technology, strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product line, improve service quality and strengthen data analysis ability. At the same time, the Bank will accelerate the pace in conducting a series of foundation work, such as the establishment of wealth centers and community branches, small and micro branches and agricultural benefiting branches as well as promotion of inclusive finance, optimization of sales capacity of outlets. The Bank will continue to maintain a rapid and healthy development for each retail business so as to compressively improve the overall competitiveness of retail businesses and contribution to the entire business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business primarily includes personal wealth management services, agency sale of funds, agency services of insurance products and agency sale of government bonds, among which:

During the first half of 2015, the Bank raised RMB25,415 million for the personal wealth management business, representing a year-on-year increase of 25.51%. Penetration of personal wealth management products amounted to RMB20,156 million, representing a year-on-year increase of 42.44%. Agency sale of open-end funds amounted to RMB1,767 million, representing a year-on-year increase of 19%. Penetration of funds was RMB684 million, representing a year-on-year increase of 50.68%. Agency sale of insurance products was RMB9.9276 million, representing a year-on-year decrease of 21%, which was in line with the reduced bond sales across the province and mainly due to a decline in the volume of loans related to agency property insurance. Agency sale of government bonds amounted to RMB328 million, representing a year-on-year decrease of 31%, which was mainly due to the lowering of yield on government bond products for saving purposes by the PBOC and Ministry of Finance, of which three-year government bond yield was lower than the interest rate for time deposits of the Bank. Penetration of government bonds was RMB3,415 million, representing an increase of 10.02% as compared with the same period of the previous year.

During the first half of 2015, income from the intermediary business of the Bank's personal wealth management business amounted to RMB70.4596 million, representing a year-on-year increase of RMB52.7566 million or 298%. Among those, income from the intermediary business of personal wealth management business amounted to RMB65.625 million, representing an increase of 423.85%, whereas income from the intermediary business of agency sale of funds amounted to RMB1.1693 million, representing a year-on-year increase of 121%. Income from the intermediate business of agency sale of insurance products amounted to RMB1.7027 million, representing a year-on-year decrease of 10%. Income from the intermediary business of agency sale of government bonds amounted to RMB1.9626 million, representing a year-on-year decrease of 29%. The decrease in income from agency sale of insurance products and government bonds was mainly due to the decrease in sales for the period.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Bank card business

One card

During the first half of 2015, the Bank further deepened and expanded the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through launching different types of branded cards, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities, constantly cultivated the card-using habits of customers and further enhanced its customer loyalty, so as to achieve a continuous and stable growth in Huangshan debit cards transactions. As of the end of June 2015, a total of 7.7451 million cards were issued by Huishang Bank. Total deposits of the cards amounted to RMB31,139 million, accounting for 36.67% of total retail deposits. Deposit per card amounted to RMB3,982.

Credit card

In 2015, on the basis of strengthening its business management and risk control, the Bank continued to improve its products' functions and services with an aim to establish an influential credit card brand in the Anhui Province. During the Reporting Period, the Bank used its corporate and retail business customer base to enhance the coordination between various business lines and actively carry out cross-marketing, significantly improving marketing results. By actively innovating product functions and optimizing product structure, the Bank introduced various consumer credit products and services such as Preferred Gold Card (惠享金卡), Huishang Agricultural Card (徽農卡), Automatic Installment Card, Love Card (臻愛卡), Travel Card (旅遊卡) and VISA Card and other innovative products closely integrated with the market, meeting the requirements of different customers. Meanwhile, the Bank strived to improve services, and further developed mobile products and services including credit card mobile App, so as to improve customer experience and services capability.

As at the end of the Reporting Period, the Bank issued a total of 384,019 credit cards, of which 357,192 were valid cards. The number of credit cards newly issued during the Reporting Period was 86,377. For the first half of 2015, the transaction amount of credit cards was RMB9,867 million; the monthly average transaction amount of valid cards was RMB5,196. The outstanding overdraft amount of credit cards was RMB3,583 million, representing an increase of RMB1,077 million as compared with the end of last year. Credit card interest income amounted to RMB26.2441 million, representing an increase of 34.99% as compared to the same period of the previous year. Credit card non-interest income amounted to RMB68.4062 million, representing an increase of 71.72% as compared to the same period of the previous year. As of 30 June 2015, credit cards NPL ratio was 1.65%, representing an increase of 0.09 percentage point from the end of last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Retail loans

During the first half of 2015, the Bank strengthened the development of personal loan business market, vigorously promoted the development of personal business loans and continued to expand the operating scale, while kept improving the pricing and strengthened the profitability of personal loans. The creditworthiness and solvency of certain individual customers deteriorated due to the macro-economic downturn, resulting in the increase of NPLs. However, the asset quality of personal loans of the Bank was generally good and the level of NPL ratio was relatively lower. Meanwhile, given that the vast majority of such new NPLs were fully secured by collaterals, the possibility of sustaining eventual losses on such loans is slim. As of 30 June 2015, the Bank's total retail loans amounted to RMB59,622 million, representing an increase of 5.35% as compared with the end of last year, which accounted for 24.64% of the total loans and advances, representing a decrease of 1.15 percentage points as compared with the end of last year.

Retail customer deposits

During the first half of 2015, facing continuous liberalization of interest rates, impact of internet finance, vibrant growth of securities markets, diversification of customers' wealth management needs, and intense competition in the industry, the Bank achieved a faster growth in customer deposits by adhering to customer-oriented business philosophy, focusing on customer wealth management, customers' needs on payment and settlement, and loan financing, and through speeding up market responsiveness, prompting the establishment of rural inclusive financial systems, getting through online and offline service channels and continuously innovating products and marketing mode. As of 30 June 2015, the Bank's retail customer deposits amounted to RMB84,915 million, representing an increase of 15.67% as compared with the beginning of last year. Among these deposits, saving deposits from county regions amounted to RMB14,321 million, representing an increase of 37.74%. Savings deposits were characterized with a fast and steady growth with optimized structure.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.3 Financial market business

Business strategy

During the first half of 2015, Chinese economy continued to slowdown accompanied by a low inflation rate. The central government adopted a loose monetary policy and placed more emphasis on a timely and appropriate pre-tuning and fine-tuning. Hence, the overall market liquidity remained loose. The Bank, after conducting an intensive study on the domestic market condition, grasped the trend of bond market and formulated its investment plan in a scientific way. Firstly, the Bank continued to broaden investment channels, optimized the investment portfolios, appropriately increased the investment in high yield products such as asset management scheme products and wealth management products offered by security agents in the situation where risks are controllable, in order to improve its portfolio gains. Secondly, the Bank actively adjusted its assets structure after conducting analyses and judgments on interest rate movements and flexibly grasping the progress and tempo of assets investment. Thirdly, the Bank proactively participated in the securities transactions in secondary markets so as to improve the income from transaction spread and enhance profitability of investment portfolios. As of the end of June 2015, the average duration of RMB bond investment portfolios was 3.21 years. Annual return on investment portfolios was 5.40%. Yield of interest income of government bonds after tax return was 5.69%.

Business development

During the first half of 2015, the Bank promoted a steady and sound growth of its financial markets business by optimizing the structure of its investment portfolios, strengthening business innovation and enriching types of products. As at the end of June 2015, the Bank's investment scale amounted to RMB185.642 billion, representing an increase of 65.23% as compared with the beginning of the year. In respect of entrusted wealth management business, the Bank issued a total of 318 tranches of financial products in the first half of 2015 with the total proceeds raised of RMB65,114 million, representing an increase of 113.34% as compared with the corresponding period of the whole year. The balance of wealth management products at the end of the period amounted to RMB49,459 million, representing an increase of 177.77% as compared with the corresponding period of last year. The daily average balance of wealth management products amounted to RMB35,903 million, representing an increase of 126.73% as compared with the corresponding period of last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.4 Distribution channels

The Bank uses a variety of distribution channels to offer its products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channel.

Physical distribution channels

As of 30 June 2015, the Bank had a total of 517 self-service banks and 1,129 cash self-service equipment (of which includes 582 ATMs and 547 CRSs).

Electronic banking channels

The Bank places great emphasis on optimizing and expanding electronic banking channels, including online banking and mobile banking, which has effectively relieved the pressure on sales networks. During the first half of 2015, the trading account transactions via retail electronic channels accounted for 79.24%, representing an increase of 5.47 percentage points over the last year; whereas the trading account transaction via corporate electronic channels accounted for 57.96%, representing an increase of 3.4 percentage points over the last year.

Online banking

During the first half of 2015, the Bank's personal online banking business continued to develop rapidly with a substantial growth of customer base and the increasing trading activities of customers. As of 30 June 2015, the total number of personal online banking customers amounted to 1.4282 million. The trading account transactions via personal online banking accounted for 41.56%, representing an increase of 5.27 percentage points over the last year. The number of personal online banking transactions accumulated to 55.3524 million in the first half of 2015, representing a year-on-year increase of 51.83%. Among these transactions, the number of online payment transactions was 5.024 million, representing a year-on-year increase of 81.88%. The transaction amount was RMB5,037 million, representing a year-on-year increase of 258.50%. In recent years, the enterprise online banking business of the Bank experienced a comprehensive and rapid development. Therefore, it has become an efficient operating channel connecting customers across various areas of public business with constant solidification of customer base and continued improvement in efficiency of channels. It continued to develop under the direction of customer operation, value exploration, cross sales and industry expansion. During the first half of 2015, the Bank recorded 16.2785 million transactions of enterprise online banking, representing a year-on-year increase of 18.64%. The transaction amount of enterprise online banking accumulated to RMB734,541 million, representing a year-on-year increase of 13.31%.

Mobile banking

During the first half of 2015, the Bank's personal mobile banking continued to maintain a rapid growth. As of 30 June 2015, the total number of mobile banking customers reached 471,600. In the first half of 2015, the number of transactions reached 3,605,100, representing a year-on-year increase of 209.33%, and the transaction amount accumulated to RMB14,105 million, representing a year-on-year increase of 689.75%.

Direct banking

The direct banking of the Bank developed rapidly since its launch in January 2015. The number of direct banking customers and transaction volume also grew rapidly. As of 30 June 2015, the total number of direct banking electronic customers amounted to 63,600. Penetrations of Ju Bao Peng (聚寶盆), Yao Qian Shu (搖錢樹) and Cun Qian Guan (存錢罐) were RMB1,104 million, RMB315 million and RMB1 million, respectively, and the total penetration of products reached RMB1,420 million, with a total transaction amount of RMB21.9 billion during the first year of 2015. After half-year development, the infrastructure of direct banking continued to improve. Three product lines including investment, financing and payment moved forward together. Cross-border cooperation and product innovation emerged one after another. Market reputation continued to improve. The Bank's direct banking "Hui Chang You Cai (徽常有財)" ranked fifth among the direct banking list in China in May 2015, 34th in the Top 300 of China Internet Finance, and was awarded the "2015 Best Direct Banking in Anhui, China (2015年中國安徽最佳直銷銀行)".

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Business of subsidiaries and major joint stock companies

Subsidiaries

Jinzhai Huiyin Rural Bank Co., Ltd.

Registered in Jinzhai of Liu'an City, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") official commenced its business on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd, along with other enterprises and individuals. The Bank contributed RMB32.8 million to the registered capital of Jinzhai Huiyin, accounting for 41% of its shareholding.

The principal businesses of Jinzhai Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) collecting payments as an agent and engaging in insurance business as an agent; and (9) other businesses approved by the banking regulatory authority of the State Council.

During the two years since its commencement of business, with strong support from the shareholders, it actively sought governmental support, adhered to the business philosophy of rooting in Jinzhai and serving "Three Dimensional Rural Issues", insisted on the market positioning of supporting agriculture and small business and took advantage of the operational strength in a flexible, effective and efficient mechanism. The business development of Jinzhai Huiyin achieved good results with main business indicators recording a significant year-on-year growth.

As of the end of June 2015, the total assets and total liabilities of Jinzhai Huiyin amounted to RMB783 million and RMB692 million, representing a year-on-year increase of RMB297 million and RMB288 million, respectively. The total loans and deposits of Jinzhai Huiyin reached RMB482 million and RMB653 million, representing a net increase of RMB238 million and 267 million, respectively. The NPL ratio of Jinzhai Huiyin was zero, the allowances for impairment losses on loans were RMB9.60 million and the allowance-to-loan ratio was 2%. The operating income of Jinzhai Huiyin was RMB17.1242 million, operating profit was RMB6.0974 million and net profit was RMB5.30 million, representing an increase of RMB8.6518 million, 3.4198 million and 2.48 million, respectively.

As a rural commercial bank positioned with "Three Dimensional Rural Issues" strategy, Jinzhai Huiyin will continue to adhere to the requirements of overall rural financial reform of Jinzhai of "rooting in Jinzhai, serving "Three Dimensional Rural Issues" and giving full support to accelerate the development of economy and society of old districts". It will also vigorously expand the deposit and operation scale, actively support "Three Dimensional Rural Issues" and the credit needs of small and micro enterprises, optimise the corporate governance, operation and management and risk control mechanisms, strengthen ethics of the employees and avoid wastage, and further give effect to the advantages of the mechanisms and efficiency of small and medium financial institutions so as to ensure the sound, rapid and sustainable development of various businesses.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Business of subsidiaries and major joint stock companies (Continued)

Subsidiaries (Continued)

Wuwei Huiyin Rural Bank Co., Ltd.

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. ("Wuwei Huiyin") commenced its business on 8 August 2010 with a registered capital of RMB100 million. The Bank contributed RMB40 million to the registered capital of Wuwei Huiyin, accounting for 40% of its shareholding. Other major shareholders include local enterprises and natural persons in Wuwei.

The principal businesses of Wuwei Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlement; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) collecting payments as an agent and engaging in insurance business as an agent; (9) other businesses approved by the banking regulatory authority of the State Council.

Since the opening, Wuwei Huiyan has been adhered to Huishang Bank's operating philosophy, which upholds the principles of scientific development. As the company is based in Wuwei and relies on the town, it strongly supports the development of "Three Dimensional Rural Issues" (economy, individual business and SME). In accordance with the operating philosophy of "close to the towns, serve Three Dimensional Rural Issues", the company took advantage of its comprehensive corporate governance structure, sound internal control mechanism, leading management skills and strong brand influence. Under effective risk control mechanism, the company innovated a variety of loans with different types, forms and operation processes; it tailored to provide flexible, high quality and efficient financial services to the "Three Dimensional Rural Issues" customers, and supported the county's economic development, extended the service to the wider rural areas and provided financial support to farmers' production and development. Its Gaogou branch officially opened for business on 18 December 2013, which is the company's third outlet in Wuwei, and also the first rural branch. Its Shijian sub-branch officially opened for business on 26 December 2014.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Business of subsidiaries and major joint stock companies (Continued)

Subsidiaries (Continued)

Huiyin Financial Leasing Co., Ltd.

Registered in Hefei in Anhui Province, Huiyin Financial Leasing Co., Ltd. (“Huiyin Financial Leasing”) officially commenced its business on 30 April, 2015 with a registered capital of RMB2,000 million. Huiyin Financial Leasing is a financial leasing company under the national banking system as approved by the CBRC. Huiyin Financial Leasing was jointly established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and Materials Industry & Trade Company of China Tiesiju Civil Engineering Group Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huiyin Financial Leasing, accounting for 51% of its shareholding.

The principal businesses of Huiyin Financial Leasing include: (1) financial leasing; (2) handling financial leasing assets as transferor or transferee; (3) fixed-income securities investment; (4) taking leasing deposits from lessees; (5) taking time deposits of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing loans from financial institutions; (8) off-shore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); (11) other businesses approved by the CBRC (any projects required for approval by law shall be commenced only after approval is obtained from the relevant departments).

As the first financial leasing company under the banking system in Anhui Province, Huiyin Financial Leasing will focus on offering leasing businesses for innovative technology enterprises, industries with competitive advantages, key projects and small businesses and projects related to the “Three Dimensional Rural Issues”. It will also actively penetrate into the industries of livelihood protection, strategic emerging industries, transport and urbanization construction so as to fully play the role of finance in promoting economic growth.

As of the end of June 2015, the total assets and total liabilities of Huiyin Financial Leasing were RMB2,946 million and RMB960 million, respectively. The financing leasing amount issued amounted to RMB2,921 million, with NPL ratio of zero. Huiyin Financial Leasing realized its operating income of RMB12.1843 million and its operating loss of RMB14.2388 million.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Business of subsidiaries and major joint stock companies (Continued)

Major joint stock companies

Chery Huiyin Motor Finance Service Co., Ltd.

Established on 13 April 2009, Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), as the first domestic independent brand auto financing company, was changed into a joint stock company limited from a limited liability company on 30 September 2014. The company was registered in Wuhu, Anhui Province with a registered capital of RMB1 billion, and 1 billion shares in total. The company was held as to 49% by Chery Automobile Co., Ltd., 31% by Chery Holdings Co., Ltd., and 20% by the Bank.

The principal businesses of Chery Huiyin include: (1) taking time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits from auto dealers for purchase of vehicles and car rental deposits from lessees; (3) issuing financial bonds after obtaining the relevant approval; (4) engaging in inter-bank lending; (5) borrowing loans from financial institutions; (6) providing auto loans; (7) providing loans to auto dealer for purchase of vehicles and operating equipment, including showrooms construction loans and spare parts loans and maintenance equipment loans; (8) providing car financing and leasing business (excluding leaseback); (9) sale of auto loan receivables and receivables from auto finance leases to or the repurchase of the same from financial institutions; (10) handling operations in relation to the sale and disposal of the residual value of rental cars; (11) engaging in the consulting and agency businesses of car-purchasing related financing activities; (12) engaging in equity investment business of financial institutions in relation to auto finance business.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT

During the first half of 2015, risks associated with the banking industry continued to rise due to the complex domestic and international economic environments. The Bank continued to implement its “prudent, rational and stable” risk preference so as to improve its comprehensive risk management system to proactively avoid various risks.

3.10.1 Credit Risk Management

Credit risk represents the risk of financial loss suffered by the Bank due to the failure on the part of a debtor or counterparty to meet its obligations under an agreement. The Bank’s credit risk primarily comes from loan business, interbank lending, investment business and off-balance sheet business.

During the first half of 2015, in view of the challenging market condition with increasing pressure from credit risks due to economic downturn, and guided by comprehensive risk management and focused on maintaining asset quality, the Bank continued to strengthen its credit risk management and control through comprehensive risk examination and on-site inspection and supervision. The Bank strengthened its risk alert and exit mechanism, and conducted key risk examination on loans associated with sensitive industries such as steel industry and wire and cable industry. The Bank also strengthened its risk control over key fields, including real estate, over-capacity and emerging industries, and strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on over-capacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions for loans with potential risks on a “one-customer-one-policy” basis. In addition, the Bank spared greater efforts in the collection of NPLs, with an aim to dispose of non-performing assets through different channels and ways, enhanced the liquidity inventory assets and optimize the credit structure. During the Reporting Period, the Bank’s NPL balance had increased due to the impact of domestic economic downturn. However, through implementing a number of measures while reducing old loans and controlling new loans, the risk of decline in asset quality is under control. Please refer to 3.4 Loan Quality Analysis in this report for the distribution structure.

3.10.2 Market Risk Management

Market risk is the risk of loss in respect of the Bank’s on and off-balance sheet activities that was caused by changes in interest rates, foreign exchange rates and other market factors.

During the first half of 2015, facing complex and dynamic external environment, the Bank strived to enhance market risk management tools and optimized market risk management processes in order to achieve better daily market risk management. The Bank adopted a variety of tools and methods such as cash flow analysis, sensitivity analysis and scenario analysis to conduct quantitative analysis on capital investment. The Bank enhanced market risk quota management, conducted stress test on interest rate risk of transaction accounts and further improved its capacity in quantifying and managing market risk so as to effectively avoid market risk. The Bank insisted on optimizing procedures and innovating technologies. Under the comprehensive risk management framework, the Bank fully identified, accurately measured and constantly monitored market risks associated with its various businesses to control market risks within a reasonably tolerable range.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.3 Operational Risk Management

Operational risk refers to the risk of loss arising from deficient or problematic internal procedures, personnel, IT systems and external events.

With respect to operational risk management, the Bank further strengthened its operational risk management in the following ways: (1) the Bank implemented hierarchical management of operational risk, established operational risk management guidance, carried out measures for identification, assessment and monitoring of operational risk, implemented a two-way reporting system for operational risks; (2) the Bank carried out a series of operational risk investigation activities, aiming to prevent potential risk exposures in key areas and significant operational risk, and supervise the implementation of risk control and mitigation measures; (3) the Bank conducted a security assessment on online banking system, and improved the security measures for online banking system; and (4) the Bank continued to promote the establishment of operational risk management system, strengthened the “three lines” of defense in operational risk management, optimized the three major instruments and capital measurement of operational risk, with the aim of improving operational risk management techniques.

3.10.4 Liquidity Risk Management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers’ needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management assume joint responsibility for establishing policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the Bank. The Risk Management Department, the Financial Markets Department, the Financial Industry Department and the International Business Department and other relevant departments are responsible for overall implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank’s liquidity risk management aims at ensuring that the Bank shall have sufficient funds to meet both expected and unexpected capital requirements (including loan growth, deposit withdrawal, debt maturity, and changes in off-balance sheet irrevocable commitments) in its normal operating environment or under pressure and provides a stable liquidity environment for ongoing operations, thus fostering positive interactions between liquidity management and business development. The Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and its needs for business development. Under the premise of ensuring liquidity, the Bank strives to pursue profit growth and value growth to achieve unity in the “liquidity, safety and profitability” of bank funds.

The Bank’s liquidity risk management adheres to its stable, prudent and rational principles. It emphasizes risk prevention and mitigation while promoting business development and profit growth. The Bank stressed on the importance of “ensuring adequate liquidity” and adopts a flexible approach to manage and control the proportion of liquidity asset portfolio with the highest efficiency. Based on our own features and external market environment, the Bank develops liquidity stress scenarios to ensure that there will be no liquidity risk in any stress scenarios or within the prescribed shortest survival period. Meanwhile, the Bank also formulated contingency plans to prevent potential liquidity crisis and take effective measure to control risk spreading in liquidity crisis scenarios.

By closely monitoring macro-economic policies and capital market conditions, the Bank dynamically adjusts its liquidity management strategies and pace of capital operation in accordance with the Bank’s assets and liabilities and liquidity position, effectively addressing the impact of periodic and seasonal factors on the Bank’s liquidity and practically improving the Bank’s ability to respond to liquidity risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.5 Interest Rate Risk Management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial condition of the Bank. Interest rate risk of the Bank primarily arises from the mismatch of structure of our banking portfolio on the maturity dates or re-pricing periods. Mismatch of maturity structure may cause the Bank's net interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the maturity profile of our banking portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies promulgated by the PBOC when carrying out deposit taking and lending activities.

During the first half of 2015, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management with the aim of improving its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, optimized its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

3.10.6 Exchange Rate Risk Management

Exchange rate risk is the risk of loss in the Bank's earnings arising from the mismatch between over-bought and over-sold current or forward position of a particular foreign currency and the term of non-RMB denominated asset and liability due to adverse changes in exchange rate. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are denominated in Euros, Hong Kong dollars and Japanese yen.

The Bank measured its exchange rate risk through qualitative and quantitative analysis. The major methods included gap analysis, duration analysis, exposure analysis, sensitivity analysis, scenario analysis, VAR analysis, stress test and post-inspection. In order to maintain its exchange rate risk within an acceptable level, the Bank implemented stringent limit management measures, primarily including trading limits, risk limits, foreign exposure limits and stop loss limits.

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers by way of "back-to-back" square trading, which avoid exchange rate risk to a large extent. Under the new normal development of bilateral exchange rate fluctuation of RMB, the Bank is required to maintain reasonable self-position exposure in accordance with the Bank's limit management within the consolidated exposure limits approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilized derivatives to prevent exchange rate risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.7 Reputation Risk Management

Reputation risk refers to the risk of commercial banks being negatively evaluated by relevant interested parties due to commercial banks' operations, management and other activities or external events.

Reputation risk management is an important component of the corporate governance and the comprehensive risk management system, which covers all activities, operations and business scopes of the Bank and its subsidiaries. The Bank established and formulated the reputation risk management system and relevant requirements to proactively and effectively prevent reputation risk and respond to any reputation events so as to mitigate loss and negative impact. When managing reputation risk, the Bank prioritized risk prevention and focused on media monitoring, analysis and alert in its daily operation, which therefore achieved satisfactory effects. In addition, the Bank proactively conducted promotional activities, was capable of quickly and promptly addressing any information that might easily be misunderstood or misinterpreted by the public, and established an effective management system. Meanwhile, the Bank actively participated in social public welfare undertakings and public activities, and assumed its corporate social responsibilities on a voluntary basis, with a view to striving to establish a healthy corporate image.

3.10.8 Compliance Risk Management

Compliance risk refers to the risk that commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses, or reputational damage as a result of any violation of laws and regulations, rules and criteria.

The Board of Directors of the Bank takes the ultimate responsibility for compliance of the Bank's operating activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance by the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk, conducting regular assessment on compliance risk and submitting compliance risk management reports to the Board. The Bank has established a robust compliance risk management system and organizational structure, formed the three defense lines for compliance risk management with interaction among front, middle and back offices, and the vertical double-line reporting system among the headquarters, branches and sub-branches, and continued to improve the compliance risk management mechanism and the risk management techniques and procedures, so as to ensure effective management of compliance risk.

During the Reporting Period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank launched special activities such as the "Compliance Establishment Year", the "Rectification of Non-Compliance Phenomena, Investigation and Punishment of Violations" and the "Strengthening Internal Control, Preventing Non-compliance Operation and Illegal Activities" in great depth to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.9 Anti-money Laundering Management

The Bank attaches great importance to anti-money laundering through fully implementing anti-money laundering laws and regulations, fulfilling its statutory obligations and promoting in-depth anti-money laundering activities.

During the Reporting Period, based on the changes to money laundering risks, the Bank optimized the withdrawal rules on unusual transactions, screened the list of clients under close watch, carried out in-depth inspection of money laundering risk and fortified the firewall against money laundering risk. The Bank also organized the election of the advanced units for anti-money laundering and fully mobilized and activated the enthusiasm, initiatives and efficiency of our business lines, outlets and employees for anti-money laundering. Furthermore, based on the suspicious transactions reported by our branches, the Bank strengthened its capacity in collecting, analyzing and applying data and information in order to make timely risk alert. In addition, the Bank gradually facilitated the establishment of the detection and analysis system for suspicious transactions, thereby effectively improving the informationalization standard for anti-money laundering. In addition, the Bank launched anti-money laundering trainings through various channels to different level of staff, raised their sense of duty on anti-money laundering, and nurtured an anti-money laundering compliance environment.

Currently, under the complex international economic and financial conditions, the methods of money laundering are becoming more subtle and diverse. Anti-money laundering is facing increasingly severe challenges. The Bank will proactively adopt its risk-based anti-money laundering methods to continue to strengthen the internal control mechanisms and to raise the level of money laundering prevention.

3.10.10 Implementation of Basel Accord

The Bank is one of earliest city commercial banks in China to devote itself to the implementation of the Basel New Capital Accord. With the measurements of the three main risks under the first pillar as the main theme, the Bank gradually promoted the development and application of the advanced methods for capital measurement in accordance with the requirements of the "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulatory policies. Currently, the Bank has established a non-retail credit risk internal grading system for customers and officially launched it in 2012. The non-retail credit risk internal grading system for debts is currently in the system implementation stage. The retail credit risk internal grading system was completed at the end of 2013 and is now in promotion for application in several stages. The project on operational risk standards has been approved and is in the process of business consultation whereas the market risk internal modeling is in the argumentation and approval preparation stage.

Chapter III Management Discussion and Analysis

3.11 INFORMATION TECHNOLOGY

During the Reporting Period, the Bank continued to strengthen the security management and operation of information technology, increased its effort to support business and products and explored new modes for the development of information technology for the purpose of actively promoting a sound development of information technology. Firstly, the Bank continued to improve its information technology management systems, revised and published a number of information technology management rules and regulations, and further regulated the management of information technology. Secondly, the Bank continued to strengthen its infrastructure construction, planned for its wireless network systems, deployed a new generation of online banking system infrastructure and implemented phase II construction of its city-wide disaster recovery, steadily enhancing the reasonableness of its technical architecture of information technology. Thirdly, the Bank strengthened its product innovation and research and development of new services, and commenced the construction of a number of projects to provide strong support for its business development and management needs. Fourthly, with continuous focus on the operation management of information systems, the Bank strengthened its construction of operation and maintenance systems. By strengthening operation and monitoring, regulating operation and maintenance management, improving the efficiency of operation and maintenance, and carrying out emergency drills, the Bank further enhanced its capabilities in providing information system services on an ongoing basis. Fifthly, the Bank strengthened supervision, inspection, education and training, and carried out information technology security checks and follow-up audit tasks. The Bank also supervised the rectification of risk issues in its headquarters and branches. The Bank actively strengthened the promotion of education, commenced network security advertising, construction of data centers and trainings on the management of operation and maintenance and on database, which actively enhanced the levels of information technology and technology management.

3.12 PROSPECTS AND MEASURES

In 2015, the world economy will develop diversely. The US economy will continue to recover, which signals the upcoming interest rate hike to be made by the Federal Reserve. Despite of the improvement in the European and Japanese economies, the risks in the emerging markets will intensify. The oil price will become stable with rebounding demand. It is expected to see an early trend of inflation worldwide in the second half of 2015. Domestic investment will continue to slow down with no growth momentum, while consumption will remain stable. The prospect for import and export seems bleak, as the economic downward pressure will still be high. In the second half of 2015 a more aggressive fiscal policy is expected to be launched with some room for monetary policies. With the influence of the policies for achieving stable growth, the economy is expected to gradually rebound. Intensified challenges from internet finance, complicated and ever-changing regulatory environment, expansion of integrated operation, and risk of deteriorating asset quality will pose challenges to the traditional banking industry. Meanwhile, the Yangtze River Economic Belt development strategy, new-type urbanization construction, and greater future economic potentials in Anhui Province will bring good opportunities for the Bank's steady development.

By seizing the opportunity of launching more fiscal policies, the Bank will play its role vigorously to support the local economic development. Under the easing monetary policies, the Bank will expand the scale of its assets, make project reserves and loan placements, and lock in profits in the downturn of the interest rate. Leveraging on its strength in internet technology, the Bank will provide customers with personal and convenient services based on big data analysis. The Bank shall tap the real needs of customers to create differential financial products for the purpose of creating new profit growth points for the Bank. By actively preparing application for related qualifications and licenses, the Bank will expand its room for integrated operations. The Bank will strive to maintain its asset quality through the strict implementation of the "Special Action Plan for Huishang Bank to 'Double Control' its Asset Quality".

Chapter III Management Discussion and Analysis

3.13 PROFIT DISTRIBUTION

Profit distribution plan for 2014

The profit distribution plan of the Bank for 2014 was passed at the 2014 Annual General Meeting held on 29 May 2015.

Audited net profit attributable to shareholders of the Bank in 2014 was RMB5,673 million. Pursuant to the Bank's Articles, the profit distribution plan for 2014 is as follow:

- (1) 10% of the net profit of the Bank for 2014 (i.e. RMB567 million) was transferred to the statutory surplus reserve;
- (2) 10% of the net profit of the Bank for 2014 (i.e. RMB567 million) was transferred to the discretionary surplus reserve;
- (3) RMB973 million was transferred to the general risk provision;
- (4) Cash dividend of RMB1,757 million (tax inclusive) or RMB0.159 per Share (tax inclusive) was declared and paid to all Shareholders of the Bank.

The dividend for 2014 is payable to the holders of Domestic Shares and H Shares whose names appear on the register of members of the Bank on 10 June, 2015. The dividend declared shall be denominated in Renminbi. The dividend payable to holders of Domestic Shares shall be paid in Renminbi whilst the dividend payable to holders of H Shares shall be paid in Hong Kong dollars. The exchange rate of dividend payable in Hong Kong dollars shall be the central parity rate of the average exchange rate of Renminbi to Hong Kong dollars as announced by the PBOC for the five business days immediately prior to the date on which the dividend was declared at the 2014 Annual General Meeting (i.e. 29 May 2015, inclusive).

Interim distribution for 2015

The Bank has no profit distribution plan for the interim period of 2015.

3.14 SOCIAL RESPONSIBILITIES

During the first half of 2015, the Bank adhered to its mission of "commitment to civic responsibility" to serve the local economy. The Bank has been promoting the innovation of financial products to satisfy the various financial needs of its customers. In addition, the Bank continued to improve its customer service and customers' experience. During the Reporting Period, the Bank took full advantage of its strengths in the regime, mechanism and system to provide comprehensive professional financial services to micro, small and medium enterprises. The Bank continued to facilitate the establishment of pilot programs of inclusive finance system, thereby getting through the green channels to serve the community, professional market and counties associated with the "Three Dimensional Rural Issues". Moreover, the Bank proactively conducted social and public welfare undertakings and charitable activities such as donations and scholarships with love and care by making donation of RMB3 million to the provincial foundation for disabled persons for offering welfare to the disabled, so as to fulfill its corporate social responsibility. The Bank also strengthened its team building by promoting talent cultivation in different tiers, improving organizational structure and establishing a performance evaluation mechanism. It also actively promoted green credit to support low-carbon economy.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.1 CHANGES IN SHARES OF THE BANK DURING THE REPORTING PERIOD

	30 June 2015		Changes during the Reporting Period Number of Shares	31 December 2014	
	Number of Shares	Percentage (%)		Number of Shares	Percentage (%)
Domestic Shares	7,887,319,283	71.38	0	7,887,319,283	71.38
Overseas listed foreign investment shares (H Shares)	3,162,500,000	28.62	0	3,162,500,000	28.62
Total number of shares	11,049,819,283	100	0	11,049,819,283	100

Notes:

- As at the end of the Reporting Period, the Bank had 18,297 shareholders, including 1,974 shareholders of H Shares and 16,323 shareholders of Domestic Shares.
- Based on the public information available and as far as the directors are aware, as of 30 June 2015, the Bank has met the public float requirements under the Hong Kong Listing Rules.

4.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

No.	Name of shareholder	Nature of shareholder	Shares held by the end of the period (share)	Percentage of total share capital %	Type of share	Change in number of shares during the Reporting Period (share)	Number of shares pledged or frozen (share)
1	HKSCC Nominees Limited ⁽¹⁾	-	3,157,243,000	28.57	H Share	475,000	-
2	Anhui Guoyuan Holding (Group) Company Ltd. ⁽²⁾	State-owned legal person	794,476,206	7.19	Domestic Share	-	-
3	Anhui Energy Group Company Ltd.	State-owned legal person	766,694,381	6.94	Domestic Share	-	-
4	Anhui Credit Guaranty Group Company Ltd.	State-owned legal person	752,416,446	6.81	Domestic Share	-	-
5	Anhui Transportation Holding Group Co., Ltd. ⁽³⁾	State-owned legal person	469,032,613	4.24	Domestic Share	-	-
6	Zhongjing Sihai Company Ltd. ⁽⁴⁾	Domestic non-state owned legal person	444,696,160	4.02	Domestic Share	-	335,766,700
7	Hefei Xingtai Financial Holding (Group) Co., Ltd. ⁽⁵⁾	State-owned legal person	343,591,483	3.11	Domestic Share	-	100,000,000
8	Wuhu Construction Investment Company Ltd.	State-owned legal person	267,284,394	2.42	Domestic Share	-	-
9	CCB Trust Company Ltd.	State-owned legal person	225,548,176	2.04	Domestic Share	-	-
10	Zhongjing Xinhua Asset Investment Management Company Ltd. ⁽⁴⁾	Domestic non-state owned legal person	204,346,570	1.85	Domestic Share	-	204,200,000

Notes:

- Shares held by HKSCC Nominees Limited are the total shares in the accounts of holders of H Shares of the Bank trading on the transaction platform of HKSCC Nominees Limited.
- The shareholding of Anhui Guoyuan Holding (Group) Company Ltd. includes the Domestic Shares of the Bank held by its subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.
- On 7 May 2015, Anhui Highway Holding Group Company Ltd. was renamed as Anhui Transportation Holding Group Co., Ltd.
- On 12 June 2015, Xiuning Xinhua Asset Investment Management Company Ltd. was renamed as Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Sihai Company Ltd. is a subsidiary in which Zhongjing Xinhua Asset Investment Management Company Ltd has a controlling shareholding.
- On 15 June 2015, Hefei Xingtai Holding Group Co., Ltd. was renamed as Hefei Xingtai Financial Holding (Group) Co., Ltd.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As of 30 June 2015, the following persons (other than the Directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

Name of Substantial Shareholder	Type of share	Long/short position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued shares (%)	Note
Anhui Guoyuan Holding (Group) Company Ltd.	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	1
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Energy Group Company Ltd.	H Share	Long	Interest of controlled corporation	280,000,000	8.85	2.53	2
	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	
Xing An Holdings Limited	H Share	Long	Beneficial owner	280,000,000	8.85	2.53	2
Anhui Credit Guaranty Group Company Ltd.	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Transportation Holding Group Co., Ltd.	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.24	
Zhongjing Sihai Company Ltd.	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	3
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	4
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	511,140,000	16.16	4.63	4
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	372,846,000	11.79	3.37	4
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	543,722,000	17.19	4.92	5
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	543,722,000	17.19	4.92	5
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	3、6
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	3、6
Modern innovation Holdings Limited	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	3、6
Jingan Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	3、6
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
	Domestic Share	Long	Interest of controlled corporation	444,696,160	5.64	4.02	3
	Domestic Share	Long	Beneficial owner	204,346,570	2.59	1.85	6
Xiuning Xinhua Asset Investment Management (Hong Kong) Limited	H Share	Long	Interest of controlled corporation	350,462,000	11.08	3.17	7
Wealth Honest Limited	H Share	Long	Beneficial owner	350,462,000	11.08	3.17	7
Zhu Mingliang	H Share	Long	Interest of controlled corporation	332,569,000	10.52	3.01	8
Zenith (H.K.) Holding Limited	H Share	Long	Interest of controlled corporation	332,569,000	10.52	3.01	8
Vasari Investment Holdings Limited	H Share	Long	Beneficial owner	332,569,000	10.52	3.01	8

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

1. Anhui Guoyuan Holding (Group) Company Ltd.' shareholdings include the Domestic Shares of the Bank held by its majority-owned subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.
2. Xing An Holdings Limited holds 280,000,000 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Company Ltd. As such, Anhui Energy Group Company Ltd. is deemed to be interested in the shares held by Xing An Holdings Limited in the Bank. At the same time, Anhui Energy Group Company Ltd. holds 766,694,381 Domestic Shares of the Bank.
3. Zhongjing Sihai Company Ltd. holds 444,696,160 Domestic Shares of the Bank, and is controlled by Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Xinhua Asset Investment Management Company Ltd. is under the control of Jingan Shanghai Silver Investment Co., Ltd. Jingan Shanghai Silver Investment Co., Ltd. is a wholly-owned subsidiary of Modern Innovation Holdings Limited, which is in turn controlled by Zhongjing Industry (Group) Limited. Zhongjing Industry (Group) Limited is under the control of Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited, Jingan Shanghai Silver Investment Co., Ltd. and Zhongjing Xinhua Asset Investment Management Company Ltd. are deemed to be interested in the shares held by Zhongjing Sihai Company Ltd. in the Bank.
4. China Vanke Co., Ltd. is deemed to hold interests in a total of 883,986,000 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:
 - "4.1" Wkland Finance Holding Company Limited holds 511,140,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
 - "4.2" Wkland Finance Holding II Company Limited holds 372,846,000 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
5. Sunshine Life Insurance Corporation Limited holds 543,722,000 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares held by Sunshine Life Insurance Corporation Limited in the Bank.
6. Zhongjing Xinhua Asset Investment Management Company Ltd. held 204,346,570 Domestic Shares of the Bank. Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited and Jingan Shanghai Silver Investment Co., Ltd. are deemed to be interested in the shares held by Zhongjing Xinhua Asset Investment Management Company Ltd. in the Bank.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes: (Continued)

7. Wealth Honest Limited holds 350,462,000 H Shares (long position) of the Bank. Wealth Honest Limited is a wholly-owned subsidiary directly controlled by Xiuning Xinhua Asset Investment Management (Hong Kong) Limited, which is in turn a wholly-owned subsidiary of Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Xinhua Asset Investment Management Company Ltd. is controlled by Jingan Shanghai Silver Investment Co., Ltd., which is in turn a wholly-owned subsidiary of Modern Innovation Holdings Limited. Modern Innovation Holdings Limited is controlled by Zhongjing Industry (Group) Limited., which is in turn under the control of Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited, Jingan Shanghai Silver Investment Co., Ltd., Zhongjing Xinhua Asset Investment Management Company Ltd. and Xiuning Xinhua Asset Investment Management (Hong Kong) Limited are deemed to be interested in the shares held by Wealth Honest Limited in the Bank.

In addition, to the knowledge of the Bank, Wealth Honest Limited purchased 239,000 H Shares on 30 June 2015. As such number did not reach the percentage required to be disclosed under the Hong Kong Listing Rules, no reporting was made to the Hong Kong Stock Exchange.

8. Vasari Investment Holdings Limited holds 332,569,000 H Shares (long position) of the Bank. Vasari Investment Holdings Limited is controlled by Zenith (H.K.) Holding Limited, which is in turn under the control of Zhu Mingliang. As such, Zhu Mingliang and Zenith (H.K.) Holding Limited are deemed to be interested in the shares held by Vasari Investment Holding Limited in the Bank.

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) having any interests or short positions in the shares and underlying shares of the Bank as of 30 June 2015 as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Position Held
Li Hongming	Male	Chairman, Executive Director
Xu Demei	Female	Vice Chairman, Executive Director
Wu Xuemin	Male	President, Executive Director
Zhang Renfu	Male	Executive Director
Ci Yaping	Male	Vice President, Executive Director
Zhang Feifei	Male	Non-Executive Director
Zhu Jiusheng	Male	Non-Executive Director
Qian Li ^{Note 1}	Male	Non-Executive Director
Lu Hui ^{Note 1}	Female	Non-Executive Director
Zhao Zongren	Male	Non-Executive Director
Qiao Chuanfu ^{Note 1}	Male	Non-Executive Director
Gao Yang	Male	Non-Executive Director
Dai Genyou	Male	Independent Non-Executive Director
Wang Shihao	Male	Independent Non-Executive Director
Zhang Shenghuai	Male	Independent Non-Executive Director
Au Ngai, Daniel	Male	Independent Non-Executive Director
Fung Weichang	Male	Independent Non-Executive Director
Zhu Hongjun	Male	Independent Non-Executive Director
Zhang Zhen	Male	Chairman of the Board of Supervisors, Employee Supervisor
Xu Chongding	Male	Chairman of Labor Union, Employee Supervisor
Zhou Tong	Female	General Manager of Compliance Department, Employee Supervisor
Cheng Rulin	Male	Supervisor
Qian Xiaojun	Male	Supervisor
Cheng Hong	Male	Supervisor
Cheng Junpei	Female	External Supervisor
Fan Libo	Male	External Supervisor
Pan Shujuan	Female	External Supervisor
Gao Guangcheng	Male	Vice President
Zhang Youqi	Male	Vice President
Sheng Hongqing	Male	Assistant President, Chief Investment Officer ^{Note 2}
Yi Feng	Male	Assistant President, Secretary to the Board of Directors ^{Note 3}
Yan Dongshun	Male	Assistant President, President of Nanjing Branch
Xia Min	Male	Assistant President, President of Hefei Branch
Liu Ming	Male	Chief Executive Officer
Chen Hao	Male	Chief Information Officer

Notes:

- At the 2014 Annual General Meeting (AGM) held on 29 May 2015, the Bank elected Mr. Qian Li, Mr. Qiao Chuanfu and Ms. Lu Hui as its non-executive Directors, whose tenure shall be the same as the term of the third session of the Board of Directors, with effect from 13 July 2015 when the approval of their qualifications was given by the CBRC Anhui Office.
- At the 11th meeting of the third session of the Board of Directors held on 23 January 2015, the Bank approved the appointment of Sheng Hongqing as its Assistant President, whose tenure shall be the same as the term of the third session of the Board of Directors, with effect from 17 March 2015 when the approval of his qualification was given by the CBRC Anhui Office.
- At the 13th meeting of the third session of the Board of Directors held on 26 March 2015, the Bank appointed Yi Feng as its Secretary to the Board of Directors, whose tenure shall be the same as the term of the third session of the Board of Directors, with effect from 13 July 2015 when the approval of his qualification was given by the CBRC Anhui Office.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

1. The Bank made an announcement on 6 January 2015, announced that the non-executive Director Mr. Guo Shigang had tendered his resignation on 5 January 2015 as a non-executive Director and a member of the Strategy Development Committee of the Bank with immediate effect due to age reason.
2. The Bank made an announcement on 9 January 2015, announced that the non-executive Director Mr. Qian Zheng had tendered his resignation on 8 January 2015 as a non-executive Director, a member of the Strategy Development Committee and Audit Committee of the Bank with immediate effect due to retirement.
3. The Bank made an announcement on 26 January 2015, announced that the non-executive Director Mr. Wu Tian had tendered his resignation as a non-executive Director, a member of the Related Party Transaction Control Committee and Risk Management Committee of the Bank with immediate effect due to his desire to devote more time to other business commitments.
4. The Bank made an announcement on 5 February 2015, announced that the vice president Mr. Wang Guisheng had tendered his resignation on 3 February 2015 as a vice president of the Bank due to reaching the retirement age. With effect from 3 February 2015, Mr. Wang ceased to perform his duties as a vice president of the Bank.
5. The Bank made an announcement on 6 February 2015, announced that Mr. Hu Dongdong had tendered his resignation and resigned as the Joint Company Secretary and Board Secretary of the Bank due to work transfer. With effect from 6 February 2015, Mr. Hu ceased to perform his duties as a Joint Company Secretary and Board Secretary of the Bank.
6. At the 11th meeting of the third session of the Board of Directors held on 23 January 2015, the Bank approved the appointment of Mr. Sheng Hongqing as its Assistant President, whose tenure shall be the same as the term of the third session of the Board of Directors, with effect from 17 March 2015 when the approval of his qualification was given by the CBRC Anhui Office.
7. The Bank made an announcement on 31 March 2015, announced that the independent non-executive Director Mr. Zhang Shenghuai ceased to be a member of the Audit Committee with effect from 27 March 2015 due to his desire to devote more time to other business commitments.
8. At the 13th meeting of the third session of the Board of Directors held on 26 March 2015, the Bank appointed Mr. Yi Feng as its Secretary to the Board of Directors, whose tenure shall be the same as the term of the third session of the Board of Directors, with effect from 13 July 2015 when the approval of his qualification was given by the CBRC Anhui Office.
9. At the 2014 AGM held on 29 May 2015, the Bank elected Mr. Qian Li, Mr. Qiao Chuanfu and Ms. Lu Hui as its non-executive Directors, whose tenures shall be the same as the term of the third session of the Board of Directors, with effect from 13 July 2015 when the approval of their qualifications was given by the CBRC Anhui Office.
10. At the 18th meeting of the third session of the Board of Directors held on 28 August 2015, the Bank elected Mr. Qian Li as a member of the Nomination Committee and Remuneration Committee of the Board, Mr. Qian Li and Ms. Lu Hui as members of the Strategy Development Committee of the Board, and Mr. Qiao Chuanfu as a member of the Risk Management Committee of the Board, with effect from 28 August 2015.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

1. Xu Demei, an executive Director of the Bank, also acts as the chairman of Huiyin Finance Leasing Co., Ltd.
2. Zhao Zongren, a non-executive Director of the Bank, also acted as the vice chairman of Sunshine Insurance Group Corporation Limited.
3. Gao Yang, a non-executive Director of the Bank, also acts as a director of Mudanjiang Foton Automotive Air Conditioner Co., Ltd., which changed its name into Mudanjiang Foton Automotive Air Conditioner Technology Co., Ltd., and a director of Zhongjing Xinhua Asset Investment Management Company Ltd.
4. Zhang Shenghuai, an independent non-executive Director of the Bank, also acts as an independent director of Sinoma Energy Conservation Ltd.
5. Wang Shihao, an independent non-executive Director of the Bank, has ceased to be an independent non-executive director of Shanghai Jinfeng Investment Company Ltd.
6. Zhu Hongjun, an independent non-executive Director of the Bank, has ceased to be the vice dean of the School of Accountancy of Shanghai University of Finance and Economics. He will be the director of Academic Affairs Office of Shanghai University of Finance and Economics.
7. Cheng Hong, a Supervisor of the Bank, has ceased to be the chairman of Anhui Hengtai Group Co. Ltd., Tongling Maoyuan Investment Limited and Nanxiang Hengtai (Suzhou) Logistics Industry Co., Ltd. He will be a director of Tongling Maoyuan Investment Limited, an executive director and the general manager of Anqing Huaxin Mines Co. Ltd. (安慶華鑫礦業有限公司), an executive director and the general manager of Tongling Maoyuan Property Management Co. Ltd. (銅陵茂源物業管理有限責任公司) and Nanxiang Hengtai (Suzhou) Logistics Industry Co., Ltd.
8. Cheng Rulin, a Supervisor of the Bank, has ceased to be the chairman of Hefei Xingtai Assets Management Co., Ltd. He will be the chairman and secretary of the Party Committee of Hefei Xingtai Holding Group Co., Ltd.
9. Fan Libo, a Supervisor of the Bank, has ceased to be a deputy dean of the International Business School of the University of International Business and Economics. He will be the dean of the School of Public Administration of the University of International Business and Economics.
10. Pan Shujuan, a Supervisor of the Bank, also acted as an independent director of Anhui Guangde Rural Commercial Bank Co., Ltd. (安徽廣德農村商業銀行股份有限公司).

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEE

1. Size and Changes

As of 30 June 2015, the Bank had a total of 6,860 employees in service.

2. Professional Structure

As of 30 June 2015, the professional structure of the Bank is as follows:

Categories	As at 30 June 2015	
	Number of employees	Percentage of the total
Management Personnel	1,324	19.30%
Marketing Personnel	3,880	56.56%
Supporting Personnel	1,656	24.14%
Total	6,860	100.0%

3. Educational Structure

	As at 30 June 2015	
	Number of employees	Percentage of the total
Master's degrees or above	735	10.71%
Full-time bachelor's degrees	2,869	41.82%
Part-time bachelor's degrees	2,158	31.46%
Junior college degrees or below	1,098	16.01%
Total	6,860	100.0%

4. Age Structure

	As at 30 June 2015	
	Number of employees	Percentage of the total
Aged below 31	3,251	47.39%
Aged 31-40	1,777	25.90%
Aged 41-50	1,613	23.52%
Aged above 50	219	3.19%
Total	6,860	100.0%

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEE (Continued)

Staff Remuneration Policy

The Bank's remuneration policy aims to establish a sound, scientific, effective performance evaluation and rewarding system for realizing shareholders value, enhancing corporate efficiency, and maximizing employees' interest. The policy facilitates the stable operation and sustainable development of the Bank, which is therefore conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. Following the principle of being "advanced, sustainable, compliant, timely, and operational" under the framework of uniform rules, the Bank will play a dynamic and creative role, and give priority to efficiency while giving consideration to fairness.

The Bank manages remuneration through the Board, head office and branches. The Board is responsible for the total amount of remuneration and senior management's remuneration. Under the Board's request, the head office allocates the total amount of remuneration and carries out policy-based management. All branches manage employees' salary under the framework of uniform rules.

Staff training plan

According to our development strategies and education and training development plans, the Bank will develop and implement the annual training plan to provide guarantees for our training and enhance staff professionalism and support their career development. During the Reporting Period, the Bank arranged training material system construction, held Huishang Bank forum, arranged training sessions for management from each level as well as professional line training sessions, promoted implementation and operation of web training platform, and held position certification tests through the Bank. During the first half of 2015, the Bank conducted training for a total enrolment of 17,142 persons with a total of 151,812 hours.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.5 BRANCHES

As of 30 June 2015, the composition of branches is as follows:

Region	Name of the Institution	Business Address	Postal Code	Number of Institutions
Head Office	Head Office	Huishang Bank Building, No. 79, Anqing Road, Luyang District, Hefei, Anhui Province	230001	1
Anhui Province	Hefei Branch	No. 235, Anqing Road, Hefei	230001	47
	Wuhu Branch	No. 45, Beijing Road, Wuhu	241000	26
	Ma'anshan Branch	No. 75, Hunan Xi Road, Huashan District, Ma'anshan	243000	22
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	22
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	15
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	20
	Liu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	19
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	13
	Tongling Branch	No. 999, Yanjiashan Road, Tonglin	244000	11
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	18
	Huangshan Branch	No. 39, Huangshan Xi Road, Huangshan	245000	9
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	7
	Chuzhou Branch	No. 286, North Fengle Road, Chuzhou	239000	11
	Suzhou Branch	No. 32, Huaihaizhong Road, Suzhou	234000	9
	Xuancheng Branch	No. 1, West Aofeng Road, Xuancheng	242000	14
Bozhou Branch	No. 277, Plaza Xiangzhang, West Shaohua Road, Bozhou	236000	8	
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	8
Total				280

Chapter VI Corporate Governance

6.1 OVERVIEW OF CORPORATE GOVERNANCE

The Bank is committed to maintaining high standard of corporate governance and endeavours to adhere to international and domestic corporate governance best practices so as to safeguard the interests of shareholders and enhance corporate value. The Bank established a relatively comprehensive corporate governance structure by clarifying the responsibilities of general meetings, the Board, the Board of Supervisors and senior management, and constantly improving the Bank's decision-making, execution and supervision mechanism to ensure the independent operation and an effective check and balance.

During the Reporting Period, the general meetings, the Board, the Board of Supervisors and the Committees of the Board and the Board of Supervisors of the Bank played their corresponding roles and operated effectively so as to guarantee the compliant operation and the steady healthy development of the Bank. During the Reporting Period, the Bank convened a total of 29 meetings, among which, there were 1 general meeting, 6 Board of Directors meetings, 17 Board of Directors Committees meetings, 2 Board of Supervisors meetings and 2 meetings of Supervision Committee under the Board of Supervisors; 1 Nomination Committee meeting.

6.2 GENERAL MEETINGS

During the Reporting Period, the Bank held only 1 general meeting. On 29 May 2015, the Bank held the 2014 AGM in Hefei. The notification, convening, holding and voting procedures of the meeting were in compliance with the Company Law, the Articles of Association and the Hong Kong Listing Rules. For the details of resolutions for consideration, please see the announcement of the 2014 AGM resolutions which was published on the respective websites of the Hong Kong Stock Exchange and the Bank on 29 May 2015.

6.3 BOARD OF DIRECTORS AND BOARD OF DIRECTORS COMMITTEE MEETINGS

During the Reporting Period, the Bank held 6 Board of Directors meetings, at which 72 resolutions were considered and approved. The Bank held 17 Board of Directors Committee meetings, (among which, there were 3 Nomination and Remuneration Committee meetings, 4 Strategy Development Committee meetings, 2 Risk Management Committee meetings, 4 Related Party Transaction Control Committee meetings and 4 Audit Committee meetings) at which 67 issues were studied and considered.

6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held 2 Board of Supervisors meetings, at which 16 resolutions were considered.

The Bank held 2 Board of Supervisors Committees meetings, at which 10 resolutions were considered. The Bank held 1 Nomination Committee meeting, at which 6 resolutions were considered.

6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for Directors and Supervisors of the Bank in respect of their dealings in the Company's securities.

Having made specific enquiries to all the Directors and Supervisors, the Bank confirmed that they had complied with the aforesaid Model Code throughout the six months ended 30 June 2015.

Chapter VI Corporate Governance

6.6 INTERNAL CONTROL

Following the operation philosophy of compliant and steady development, according to laws and regulations such as the Basic Internal Control Norms for Enterprises and its relevant guidelines, the Guidelines for Internal Control of Commercial Banks as well as the relevant requirements of the Hong Kong Stock Exchange, the Bank has established an internal control system consisting of five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision, clearly defined the objectives, principles and organizational system of internal control; exerted full control over the whole process of various operation and management of the Bank, and in the course of carrying out internal control, continued to enhance the integrity, rationality and effectiveness of our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; formed scientific and effective segregation of duties as well as check and balance mechanism. The Board of the Bank takes ultimate responsibility for the establishment of internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board and senior management to establish and improve internal control system; and overseeing the Board and its directors, senior management and officers to perform their duty of internal control. Senior management is responsible for the execution of internal control system and policies approved by the Board. According to the checks and balances requirements of internal control, the Bank established an internal control and management structure which specifies clear division of responsibilities and separation of duties and requires everyone to play his/her functional role. The Risk Management and Internal Control Committee of the head office shall consider and decide on material events and management measures regarding internal control. The operational management departments at all levels and sales networks form “the first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise “the second-line defense of internal control”, providing guidance and supervision on development and implementation of internal control of the first-line defense as well as reporting to the management on the establishment and implementation of internal control system of the Bank. Being “the third-line defense of internal control”, the audit department monitors and checks the effectiveness of internal control.

During the Reporting Period, the Bank organized the activity of the “Management Promotion Year”, the special inspection activity of “Enhancing Internal Control and Curbing Illegal Operations and Illegal Activities”, and activities including annual case prevention work assessment for 2014, new county branch internal control operation assessment for 2014, compliance risk identification and assessment for the first half of 2015, AML management system Improvement so as to commence the construction of a comprehensive risk management system, further improve market risk, credit risk and operational risk management system. Therefore, the internal control system operated effectively. In addition, the Bank has conducted assessments of the internal control on all management departments and offices of the head office and branches, as well as sub-branches in 2014. After the inspection by the Board, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were found.

6.7 STATEMENT OF COMPLIANCE WITH THE HONG KONG LISTING RULES

During the Reporting Period, the Bank has applied the principles of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and has complied with all the code provisions and recommended practices (if applicable).

Chapter VII Material Events

7.1 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

There was no holding and trading of shares of other listed companies by the Bank during the Reporting Period.

7.2 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the Reporting Period.

7.3 INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT UNDER THE REGULATIONS IN HONG KONG

As of 30 June 2015, the Directors, Supervisors and chief executives of the Bank and their associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO of Hong Kong or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules:

Name	Position	Type of shares	Capacity	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei	Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
Zhou Tong	Supervisor	Domestic Shares	Beneficial Owner	167,974	0.0021	0.0015

Note: Save as disclosed above, as of 30 June 2015, none of the Directors, Supervisors and chief executives of the Bank and their associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

7.4 PENALTY AND INVESTIGATION OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

There were no investigation or significant penalty imposed on the Bank, Directors, Supervisors and senior management of the Bank.

Chapter VII Material Events

7.5 CONTINUING CONNECTED TRANSACTION

In the ordinary course of business, the Bank provides commercial banking service and products to the public in the PRC, including Directors, Supervisors and/or their respective associates. During the Reporting Period, the related party transactions between the Bank and related parties were conducted in compliance with the normal commercial principles on the conditions that were not superior to similar conditions for non-related party transactions. The transaction terms were fair and reasonable and in line with the interests of the Bank and its shareholders as a whole. All these transactions were made on normal commercial terms in the ordinary course of business and were exempt from the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposit from its connected persons (including Directors, Supervisors and/or their respective associates) under normal deposits interest rate and normal commercial terms.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempt continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including Directors, Supervisors and/or their respective associates) in the ordinary course of business on normal commercial terms with reference to prevailing market rates.

The Bank offers loans and credit facilities to its connected persons in the ordinary course of business and on the normal commercial terms and comparable terms offered to independent third parties. Therefore, these transactions will constitute exempt continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – other banking services and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) in the ordinary course of business to its connected persons (including Directors, Supervisors and/or their respective associates) at normal prescription fees, service fees and charges and on normal commercial terms and conditions.

It is expected that none of the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the total annual service and/or product fees paid to us by a particular connected person and its associates will exceed 0.1%. Therefore, these transactions will constitute exempt continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Chapter VII Material Events

7.6 MATERIAL LITIGATIONS AND ARBITRATIONS

To the knowledge of the Bank, as of 30 June 2015, the Bank was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases involving the Bank totaled 253, with a total principal amount of RMB1,440 million. Of which, there were a total of 14 pending litigation and arbitration cases against the Bank, with a total principal amount of RMB108.55 million. The Bank made full provision for allowances for doubtful accounts of loans involved in the above cases according to expected losses in a prudent manner. All the cases have no material adverse effect on the Bank's financial position and operating results.

7.7 USE OF PROCEEDS

The funds raised from the Bank's fundraising activities were used for the purposes disclosed in prospectuses, namely, strengthening the capital base to support the continuous development of the Bank.

For future development and planning disclosed in the public disclosure documents such as the offering prospectuses and fund raising prospectuses issued by the Bank that has continued during the Reporting Period, its implementation progress conformed to the planning as described upon verification and analysis.

7.8 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, some assets had been pledged to other banks and the Ministry of Finance as collaterals for sale of repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal or reorganization that is outside the normal scope of business. Please refer to Note 40 to the Financial Statements for details of asset pledge.

7.9 USE OF FUNDS BY RELATED PARTIES

To the knowledge of the Bank, during the Reporting Period, neither the substantial shareholders of the Bank nor their related parties had used any funds of the Bank for non-operating purposes, nor none of them had used the funds of the Bank through any unfair related party transactions.

7.10 APPLICATION FOR LISTING OF A SHARES

A general meeting of shareholders was convened by the Bank on 29 May 2015, on which the proposal for initial public offering of A shares was considered and approved. The Bank proposed to issue no more than 1.228 billion shares. The matters in relation to the proposed issuance of A shares are set out in the circular dated on 13 May 2015 and the announcement dated on 29 May 2015 of the Bank.

The Bank submitted application materials including the A Share Prospectus to the CSRC on 18 June 2015 and an acceptance was given by the CSRC. The A Share Prospectus was published on the CSRC website (www.csrc.gov.cn) on 3 July 2015, and on the HKExnews website of Hong Kong Exchanges and Clearing Limited on the same day according to Rule 13.10B of the Hong Kong Listing Rules.

Chapter VII *Material Events*

7.11 ISSUE OF FINANCIAL BONDS

Subject to obtaining necessary approvals from the China Banking Regulatory Commission and other regulatory authorities, the Bank will offer to members of the China national inter-bank bond market the financial bonds used for loans for agricultural businesses in an aggregate principal amount of RMB6 billion to RMB8 billion (the “Bonds”). The Bonds will not be listed on the Hong Kong Stock Exchange. For details, please refer to the Announcement on Proposed Issue of Financial Bonds dated 21 January 2014 of the Bank.

The Bank commenced to apply for issuance of “Three-Dimensional Rural Issues” special financial bonds at the beginning of July 2014. From July to November 2014, the Bank obtained an initial approval from the CBRC Anhui Office and an approval from the CBRC, respectively, for the issuance of “Three-Dimensional Rural Issues” special financial bonds. On 20 November 2014, the Bank formally submitted its application materials to Hefei Central Sub-branch of the People’s Bank of China and passed the preliminary review. The application materials were accepted by the head office of the People’s Bank of China on 15 December 2014.

The Bank plans to issue the “Three-Dimensional Rural Issues” special financial bonds at a proper time. Considering that the amount of the bonds to be issued is large and that such bonds may be issued in tranches, following the review and approval of such resolution at the Board meeting held by the Bank on 26 March 2015 and the AGM held by the Bank on 29 May 2015, the Bank extends the valid period of the original resolution approved at shareholders’ general meeting for 18 months, that is, the Bank may issue the “Three-Dimensional Rural Issues” special financial bonds with the total principal amount of RMB6 billion to RMB8 billion on or before 30 June 2016 (and such bonds may be issued in tranches). For more details of the approval of resolutions at the AGM of the Bank, please refer to the circular of the annual general meeting dated 14 April 2015 as well as the announcement dated 29 May 2015 on “Poll Results of the 2014 Annual General Meeting Dividend Payment, Amendments of Articles of Association and Election of the Directors”.

7.12 REVIEW ON INTERIM RESULTS

PricewaterhouseCoopers, being the external auditor of the Bank, has reviewed the interim financial statements of the Bank as prepared in accordance with the International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of the Bank has also reviewed and approved the interim results and financial statements of the Bank for the six months ended 30 June 2015.

7.13 PUBLICATION OF INTERIM REPORT

The Bank has prepared its interim report under IFRS and the Hong Kong Listing Rules in both Chinese and English versions, which are available on the website of the Hong Kong Stock Exchange and the Bank’s website.

Chapter VIII Interim Financial Statements Report On Review Of Interim Financial Information



羅兵咸永道

**To the Board of Directors of Huishang Bank Corporation Limited
(Incorporated in the People's Republic of China with limited liability)**

INTRODUCTION

We have reviewed the interim financial information set out on pages 71 to 156, which comprises the interim condensed consolidated statement of financial position of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2015 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2015

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Condensed Consolidated Statement of Comprehensive Income

For six months ended 30 June 2015
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Six months ended 30 June	
		2015	2014
Interest income	5	13,453,806	11,304,574
Interest expense	5	(6,753,962)	(5,943,376)
Net interest income		6,699,844	5,361,198
Fee and commission income	6	945,767	507,910
Fee and commission expense	6	(43,711)	(40,333)
Net fee and commission income		902,056	467,577
Net trading income	7	(2,237)	48,752
Net gains on investment securities		59,435	41,700
Dividend income		440	–
Other operating income, net	8	47,308	81,180
Operating income		7,706,846	6,000,407
Operating expenses	9	(1,945,188)	(1,834,834)
Impairment losses on assets	11	(1,806,925)	(474,277)
Operating profit		3,954,733	3,691,296
Share of profits of associates		50,288	39,324
Profit before income tax		4,005,021	3,730,620
Income tax expense	12	(932,270)	(890,379)
Profit for the period		3,072,751	2,840,241
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value changes on available-for-sale financial assets	41	65,514	711,681
Less: related income tax impact	41	(16,378)	(177,920)
Other comprehensive income for the period, net of tax		49,136	533,761
Comprehensive income for the period		3,121,887	3,374,002
Net profit attributable to:			
Shareholders of the Bank		3,066,587	2,838,689
Non-controlling interests		6,164	1,552
		3,072,751	2,840,241
Total comprehensive income attributable to:			
Shareholders of the Bank		3,115,723	3,372,450
Non-controlling interests		6,164	1,552
		3,121,887	3,374,002
Earnings per share attributable to the shareholders of the Bank (express in RMB per share)			
Basic/Diluted	13	0.28	0.26

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

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

	Note	As at 30 June 2015	As at 31 December 2014
Assets			
Cash and balances with central bank	14	69,809,035	76,420,868
Deposits with banks and other financial institutions	15	13,461,235	11,352,332
Placements with banks and other financial institutions	16	18,431,423	9,232,910
Financial assets at fair value through profit or loss	17	4,992,540	2,963,949
Derivative financial assets	18	2,932	1,878
Financial assets held under resale agreements	19	41,563,963	53,200,619
Loans and advances to customers	20	236,487,123	214,734,236
Investment securities			
– available-for-sale	21	55,736,837	71,572,329
– held-to-maturity	21	31,634,315	30,020,845
– loans and receivables	21	93,275,211	7,797,472
Investment in associates	23	375,893	325,605
Property, plant and equipment	24	1,476,873	1,415,034
Deferred tax assets	33	1,006,539	955,787
Other assets	25	6,902,102	2,770,450
Total assets		575,156,021	482,764,314
Liabilities			
Borrowing from central banks		160,000	107,000
Deposits from banks and other financial institutions	27	64,957,451	24,430,294
Placements from banks and other financial institutions	28	2,082,762	1,681,996
Derivative financial liabilities	18	17,195	2,391
Financial assets sold under repurchase agreements	29	58,646,121	72,481,217
Deposits from customers	30	349,426,301	317,870,043
Taxes payable	31	734,369	824,507
Debt securities issued	34	50,127,177	18,750,993
Other liabilities	32	10,105,618	10,062,949
Total liabilities		536,256,994	446,211,390
Equity			
Share capital	35	11,049,819	11,049,819
Capital reserve	35	6,751,041	6,751,041
Surplus reserve	36	4,638,276	4,071,254
General reserve	36	4,716,293	3,743,460
Investment revaluation reserve	41	(60,275)	(109,411)
Retained earnings		10,639,005	10,868,057
Equity attributable to shareholders of the Bank		37,734,159	36,374,220
Non-controlling interests		1,164,868	178,704
Total equity		38,899,027	36,552,924
Total equity and liabilities		575,156,021	482,764,314

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

Approved and authorized for issue by the Board of Directors on 28 August 2015.

Li Hongming	Wu Xuemin	Yi Feng	Li Dawei
Chairman	President	Assistant to the President, in-charge of Finance	Head of Finance Department

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015
(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank							
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	Non-controlling interests	Total equity
	Note 35	Note 35	Note 36	Note 36	Note 41			
As at 1 January 2015	11,049,819	6,751,041	4,071,254	3,743,460	(109,411)	10,868,057	178,704	36,552,924
(1) Comprehensive income								
Profit for the period	-	-	-	-	-	3,066,587	6,164	3,072,751
Other comprehensive income, net of tax	-	-	-	-	49,136	-	-	49,136
Total comprehensive income for the period	-	-	-	-	49,136	3,066,587	6,164	3,121,887
(2) Changes in share capital								
Non-controlling interests	-	-	-	-	-	-	980,000	980,000
(3) Profit distribution								
Dividends	-	-	-	-	-	(1,755,784)	-	(1,755,784)
Appropriation to surplus reserve	-	-	567,022	-	-	(567,022)	-	-
Appropriation to general reserve	-	-	-	972,833	-	(972,833)	-	-
As at 30 June 2015	11,049,819	6,751,041	4,638,276	4,716,293	(60,275)	10,639,005	1,164,868	38,899,027
As at 1 January 2014	11,049,819	6,751,041	3,011,585	3,062,782	(909,547)	8,659,441	46,811	31,671,932
(1) Comprehensive income								
Profit for the period	-	-	-	-	-	2,838,689	1,552	2,840,241
Other comprehensive income, net of tax	-	-	-	-	533,761	-	-	533,761
Total comprehensive income for the period	-	-	-	-	533,761	2,838,689	1,552	3,374,002
(2) Profit distribution								
Dividends	-	-	-	-	-	(1,723,772)	-	(1,723,772)
Appropriation to surplus reserve	-	-	492,647	-	-	(492,647)	-	-
Appropriation to general reserve	-	-	-	680,678	-	(680,678)	-	-
As at 30 June 2014	11,049,819	6,751,041	3,504,232	3,743,460	(375,786)	8,601,033	48,363	33,322,162
As at 1 January 2014	11,049,819	6,751,041	3,011,585	3,062,782	(909,547)	8,659,441	46,811	31,671,932
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	5,672,735	3,623	5,676,358
Other comprehensive income, net of tax	-	-	-	-	800,136	-	-	800,136
Total comprehensive income for the year	-	-	-	-	800,136	5,672,735	3,623	6,476,494
(2) Changes in share capital								
Non-controlling interests	-	-	-	-	-	-	128,270	128,270
(3) Profit distribution								
Dividends	-	-	-	-	-	(1,723,772)	-	(1,723,772)
Appropriation to surplus reserve	-	-	1,059,669	-	-	(1,059,669)	-	-
Appropriation to general reserve	-	-	-	680,678	-	(680,678)	-	-
As at 31 December 2014	11,049,819	6,751,041	4,071,254	3,743,460	(109,411)	10,868,057	178,704	36,552,924

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

Condensed Consolidated Statement of Cash Flows

For the year ended 30 June 2015

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

	Six months ended 30 June	
	2015	2014
Cash flows from operating activities:		
Profit before income tax	4,005,021	3,730,620
Adjustments:		
Depreciation and amortization	154,517	132,778
Impairment losses on assets	1,806,925	474,277
Recovery of written-off loans	24,221	1,408
Net losses/(gains) on disposals of property, plant and equipment	58	(20)
Net gains on de-recognition of investment securities	(59,435)	(41,700)
Fair value changes in financial assets at fair value through profit or loss and derivatives	16,460	(25,660)
Dividends received	(440)	–
Share of results of associates	(50,288)	(39,324)
Interest income from investment securities	(3,032,142)	(1,530,607)
Investment income arising from derivative financial assets	–	(501)
Interest expense from debt securities issued	801,852	239,035
Cash payments for IPO related expenses	–	15,881
Net changes in operating assets:		
Net decrease/(increase) in balances with the central bank	4,204,866	(3,632,655)
Net increase in deposits and placements with banks and other financial institutions	(16,384,052)	(9,296,321)
Net (increase)/decrease in financial assets at fair value through profit or loss	(2,031,301)	89,550
Net decrease/(increase) in financial assets held under resale agreements	11,636,656	(21,075,584)
Net increase in loans and advances to customers	(23,478,720)	(16,396,723)
Net (increase)/decrease in other assets	(3,447,724)	148,723
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	40,927,923	7,128,920
Net (decrease)/increase in financial assets sold under repurchase agreements	(13,835,096)	17,630,508
Net increase in deposits from customers	31,556,258	33,696,021
Net decrease in other liabilities	(1,425,566)	(444,104)
Income taxes paid	(1,101,153)	(1,087,716)
Net cash inflow from operating activities	30,288,840	9,716,806

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

Condensed Consolidated Statement of Cash Flows

For the year ended 30 June 2015
(All amounts expressed in thousands of RMB unless otherwise stated)

	Six months ended 30 June	
	2015	2014
Cash flows from investing activities:		
Dividends received	440	–
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	78	436
Purchase of property, plant and equipment, intangible assets and other long-term assets	(214,860)	(151,155)
Cash received from investment securities interest income	2,533,277	1,444,970
Cash received from sale and redemption of investment securities	457,064,123	35,584,842
Purchase of investment securities	(528,443,188)	(51,560,312)
Net cash outflow from investing activities	(69,060,130)	(14,681,219)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	50,361,708	–
Cash payments for IPO related expenses	–	(147,076)
Cash received from non-controlling interests in investing in subsidiaries	980,000	–
Dividends and interests paid on debt issued	(527,042)	(481,544)
Cash paid relating to other financial activities	(19,520,000)	–
Net cash inflow/(outflow) from financing activities	31,294,666	(628,620)
Impact on cash and cash equivalents resulted from interest rate changes	(6,978)	6,721
Net decrease in cash and cash equivalents	(7,483,602)	(5,586,312)
Cash and cash equivalents at beginning of period	33,127,922	37,548,361
Cash and cash equivalents at end of period (Note 43)	25,644,320	31,962,049

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

Notes to the Condensed Consolidated Financial Statements

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

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“PBOC”), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. Approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’ anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution license B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 30 June 2015, the registered and paid-in capital of the Bank is RMB11 billion.

The principal activities of the Bank and its subsidiaries (collectively, the “Group”) include Renminbi (“RMB”) and foreign currency deposits, loans, clearing and settlement services, assets custody services, finance leasing services, and the provision services as approved by the respective regulators.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 28 August 2015.

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure required by the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The condensed consolidated financial statements are prepared in accordance with the applicable of the predecessor Companies Ordinance (Cap.32) for this period and the comparative period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements are disclosed in Note 3.2.

Notes to the Condensed Consolidated Financial Statements

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

2 BASIS OF PREPARATION (Continued)

The Group has applied the following new or amended IFRSs, which are applicable for the Group since 1 January 2015 which are set out below:

Amendments to IAS 19, 'Employee contributions';

Annual Improvements to IFRSs 2010-2012 Cycle;

Annual Improvements to IFRSs 2011-2013 Cycle.

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group. Besides that, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

3.1 Summary of significant accounting policies

3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

3.1.2 Functional and presentation currency

The Group's functional and presentation currency is RMB.

3.1.3 Subsidiaries

(a) Consolidation

The condensed consolidated financial statements comprise the financial statements of the Bank and all of 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 to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.3 Subsidiaries (Continued)

(a) Consolidation (Continued)

In preparing the condensed consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognized as non-controlling interests and presented separately in the condensed consolidated financial statements within equity and net profits respectively.

(b) Separate financial report

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Bank based on dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the condensed consolidated financial statements of the investee's net assets including goodwill.

3.1.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.4 Associates (Continued)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognized in the statement of comprehensive income.

3.1.5 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognized in the income statement. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, deposits or placements with banks and other financial institutions with original tenors less than 3 months.

3.1.7 Financial instruments

(1) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification of financial assets depends on the group's intention to hold. The Group determines the classification of the financial assets on initial recognition.

The Group classified its financial liability in the following categories: at fair value through profit and loss and other financial liabilities. The Group does not hold any financial liabilities at fair value through profit or loss.

The classification of financial instruments depends on the Group's intention and ability to hold the financial instruments. Management determines the classification of its financial instruments at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

There are no financial assets designated at fair value through profit or loss at inception for the Group.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(1) Classification (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

(e) Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss. Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method.

(2) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'net trading gains/(losses)' in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(2) Recognition and measurement (Continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as “net gains/(losses) from investment securities”.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group’s right to receive payments is established.

(3) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(4) Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(4) Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Financial assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(5) Derecognition of financial instruments

The Group derecognizes a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

Financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(6) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

3.1.8 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.1.9 Securitizations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.10 Resale and repurchase agreements

Assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognized on the statement of financial position at time of acquisition. The corresponding cash paid is recognized on the balance sheet as “financial assets held under resale agreements”. Conversely, assets sold under agreements to repurchase at a specified future date with a specific price (“repos”) are not derecognized. The corresponding cash received is recognized on the balance sheet as “financial assets sold for repurchase agreements”.

The differences between the purchase and resale prices and sale and repurchase prices are recognized as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

3.1.11 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.11 Property, plant and equipment (Continued)

(b) Depreciation and impairment (Continued)

The estimated useful lives, residual values and annual depreciation rates of respective property, plant and equipment are as follows:

	Estimated useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Electronic and other equipment	5-10 years	3%	9.7%~19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

3.1.12 Land use rights

Land use rights are initially recognized at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.13 Intangible assets

Software and other intangible assets are initially recognized at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

3.1.14 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset. If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

3.1.15 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Employee benefits are recognized as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in the expenses in profit or loss.

(a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.15 Employee benefits (Continued)

(a) *Defined contribution retirement schemes (Continued)*

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme setup by the Bank under "Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

(b) *Housing fund and other social insurance*

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employee's salary and expenses monthly and recognises them in profit or loss on an accrual basis. The Group has participated in commercial medical insurance schemes provided by commercial insurance companies since October 2012.

(c) *Early retirement expenses*

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

3.1.16 Revenue Recognition

(a) *Interest income*

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.16 Revenue Recognition (Continued)

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

3.1.17 Current and deferred tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.18 Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

3.1.19 Financial guarantee contracts

Financial guarantees are contracts that require the Group as the guarantor (the “issuer”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in “other liabilities”. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

3.1.20 Fiduciary activities

The Group’s fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and related parties. The Group conducts entrusted lending business, hereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) according to the instructions of the customers. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.21 Lease

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) *As a lessee under operating leases*

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

(b) *As a lessor under finance leases*

At the lease commencement date, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "other assets". When making the judgment of de-recognition or impairment measurement, finance lease receivables are considered as loans and receivables.

(c) *As a lessor under operating lease*

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease.

3.1.22 Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately. The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.2 Critical accounting estimates and judgments

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.2.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change (e.g. the borrower failed to make repayments on time) in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2.2 Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates, credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximizing observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

Notes to the Condensed Consolidated Financial Statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.2 Critical accounting estimates and judgments (Continued)

3.2.3 Reclassification of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investments to maturity. This classification requires significant judgment. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale investments and is prohibited from recognizing this kind of investments as held-to-maturity investment within the following two accounting years.

3.2.4 Income taxes

The Group is subject to income taxes and significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as deductibility of asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

3.2.5 Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. The recent evidence indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. and in effect controls it. So the Group consolidated Wuwei Huiyin Rural Bank Co., Ltd on 31 December, 2014.

4 TAXATION AND SURCHARGE

The principal taxes and surcharge to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Business tax	Taxable operating income	5%
City construction and maintenance tax	Business tax	5%, 7%
Education surcharge	Business tax	3%

Notes to the Condensed Consolidated Financial Statements

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

5 NET INTEREST INCOME

	Six months ended 30 June	
	2015	2014
Interest income		
Balances with central bank	443,132	430,049
Deposits and placements with banks and other financial institutions	2,056,132	2,340,213
Loans and advances to customers	7,913,982	7,003,705
Investment securities and Financial assets at fair value through profit or loss	3,032,142	1,530,607
Finance lease	8,418	–
	13,453,806	11,304,574
Including: Interest income accrued on impaired loans to customers	34,152	19,096
Interest expense		
Due to central bank	(1,471)	(119)
Deposits and placements from banks and other financial institutions	(2,562,770)	(2,563,420)
Deposits from customers	(3,387,869)	(3,140,802)
Debt securities issued	(801,852)	(239,035)
	(6,753,962)	(5,943,376)
Net interest income	6,699,844	5,361,198

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2015	2014
Fee and commission income		
Custodian and other fiduciary service fees	561,683	189,439
Consultancy and advisory fees	103,623	85,982
Bank card fees	100,427	70,389
Settlement and clearing fees	55,031	51,625
Guarantee and commitment fees	23,908	22,665
Syndicated loan fees	22,972	8,948
Arrangement fees for international trade financing	19,129	5,181
Agency commissions	14,288	13,679
Domestic factoring fees	6,419	6,860
Others	38,287	53,142
	945,767	507,910
Fee and commission expense	(43,711)	(40,333)
Net fee and commission income	902,056	467,577

Notes to the Condensed Consolidated Financial Statements

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

7 NET TRADING GAINS

	Six months ended 30 June	
	2015	2014
Net gains from foreign exchange	14,300	22,931
Net (losses)/gains from interest rate instruments	(16,537)	25,821
	(2,237)	48,752

Net (losses)/gains from interest rate instruments mainly include gains or losses arising from fair value changes of financial assets at fair value through profit or loss and from interest rate instruments.

8 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2015	2014
Net gains on bills	16,747	71,939
Others	30,561	9,241
	47,308	81,180

9 OPERATING EXPENSES

	Six months ended 30 June	
	2015	2014
Staff cost (Note 10)	(693,565)	(787,248)
General operating and administrative expenses	(383,155)	(366,840)
Business tax and surcharges	(602,497)	(447,789)
Depreciation (Note 24)	(103,298)	(88,294)
Amortization expenses for intangible assets (Note 25(f))	(16,517)	(15,593)
Amortization expenses for land use rights (Note 25(e))	(2,148)	(131)
Amortization expenses for long-term prepaid expenses	(32,554)	(28,760)
Operating lease rental expenses	(106,453)	(89,200)
Others	(5,001)	(10,979)
	(1,945,188)	(1,834,834)

10 STAFF COST

	Six months ended 30 June	
	2015	2014
Salaries, bonuses, allowances and subsidies	(431,570)	(563,486)
Pension costs	(91,429)	(65,140)
Labor union fee and staff education fee	(14,773)	(17,387)
Other social insurance and welfare costs	(155,793)	(141,235)
	(693,565)	(787,248)

Notes to the Condensed Consolidated Financial Statements

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

11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2015	2014
Loans and advances to customers (Note 20(b))		
– Collectively assessed	(832,137)	(344,617)
– Individually assessed	(694,965)	(129,660)
Available-for-sale financial assets (Note 26)	(12,568)	–
Investments classified as loans and receivables (Note 26)	(238,240)	–
Finance lease receivables (Note 26)	(29,015)	–
	(1,806,925)	(474,277)

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
Current income tax		
– PRC mainland income tax	(999,400)	(909,532)
Deferred tax (Note 33)	67,130	19,153
	(932,270)	(890,379)

The provision for China mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	Six months ended 30 June	
	2015	2014
Profit before tax	4,005,021	3,730,620
Tax calculated at applicable statutory tax rate of 25%	(1,001,255)	(932,655)
Tax effect of income not taxable for tax purpose (a)	125,145	92,593
Tax effect of items such as expenses not deductible for tax purposes (b)	(25,519)	(3,217)
Tax filing differences from previous years	(30,641)	(47,100)
Income tax expense	(932,270)	(890,379)

(a) Non-taxable income mainly represents interest income arising from PRC treasury bonds.

(b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

Notes to the Condensed Consolidated Financial Statements

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

13 EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Six months ended 30 June	
	2015	2014
Net profit attributable to shareholders of the Bank (in RMB thousands)	3,066,587	2,838,689
Weighted average number of ordinary shares in issue (in thousands)	11,049,819	11,049,819
Basic earnings per share (in RMB Yuan)	0.28	0.26

(b) Diluted earnings per share

For the six months ended 30 June 2015 and 2014, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

14 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2015	As at 31 December 2014
Cash	1,152,234	1,067,900
Balances with the central bank		
– Statutory reserves (a)	52,969,490	57,174,356
– Surplus reserves (b)	15,687,311	18,178,612
	69,809,035	76,420,868

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the bank were as follows:

	As at 30 June 2015	As at 31 December 2014
Statutory reserve rate for RMB deposits	15.5%	17.5%
Statutory reserve rate for foreign currency deposits	5%	5%

- (b) Surplus deposit reserves maintained with the PBOC is mainly for clearing.

Notes to the Condensed Consolidated Financial Statements

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2015	As at 31 December 2014
Banks in PRC mainland	12,741,981	9,434,831
Banks in other countries and regions	719,254	1,917,504
	13,461,235	11,352,335
Less: allowances for impairment losses		
– Individually assessed	–	(3)
	13,461,235	11,352,332

16 PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2015	As at 31 December 2014
Banks in PRC mainland (a)	16,831,423	7,232,910
Other financial institutions in PRC mainland	1,600,000	2,000,000
	18,431,423	9,232,910

(a) Placement with banks and other financial institutions in PRC mainland are mainly bill rediscounts. The amount of bill rediscounts is RMB15,564 million by the end of 30 June 2015 and RMB7,233 million by the end of 31 December 2014 comparatively.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2015	As at 31 December 2014
Government bonds		
– Listed outside Hong Kong	565,513	532,030
Other debt securities		
– Listed outside Hong Kong	4,427,027	2,431,919
	4,992,540	2,963,949

As at 30 June 2015 and 31 December 2014, there was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Notes to the Condensed Consolidated Financial Statements

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

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

	As at 30 June 2015	As at 31 December 2014
Debt securities		
Issuers in PRC mainland		
– Government	565,513	532,030
– Financial institutions	4,133,991	1,882,479
– Corporates	293,036	549,440
	4,992,540	2,963,949

18 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2015		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	457,958	1,384	(1,290)
– Currency swaps	623,579	1,275	(755)
– Interest rate swaps	2,030	273	(15,150)
	1,083,567	2,932	(17,195)

	As at 31 December 2014		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	171,671	1,214	(1,109)
– Currency swaps	821,248	616	(1,244)
– Interest rate swaps	100,000	48	(38)
	1,092,919	1,878	(2,391)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2015	As at 31 December 2014
Securities held under resale	–	3,321,899
Bills held under resale	41,563,963	49,378,720
Trust beneficiary rights under resale(a)	–	500,000
	41,563,963	53,200,619

(a) The underlying investment of trust beneficiary rights mainly is trust loans managed by a trust company as the trustee.

Notes to the Condensed Consolidated Financial Statements

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

20. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2015	As at 31 December 2014
Corporate loans and advances		
– Corporate loans	165,506,312	149,223,203
– Discounted bills	16,854,372	13,579,764
Subtotal	182,360,684	162,802,967
Personal loans and advances		
– Mortgage loans	41,906,376	40,069,638
– Revolving loans for individual business	10,615,862	10,420,318
– Others	7,099,927	6,103,736
Subtotal	59,622,165	56,593,692
Total	241,982,849	219,396,659
Less: Allowance for impairment losses		
– Collectively assessed	(4,862,342)	(4,235,487)
– Individually assessed	(633,384)	(426,936)
Total allowance for impairment losses	(5,495,726)	(4,662,423)
Loans and advances to customers, net	236,487,123	214,734,236

(b) Movement of allowance for impairment losses on loans and advances to customers by collective and individual assessments:

	As at 30 June 2015		As at 31 December 2014	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the period/year	4,235,487	426,936	3,797,825	371,213
Impairment allowance charged (Note 11)	832,137	694,965	603,244	375,340
Unwinding of discount on allowance	(16,216)	(17,936)	(8,932)	(26,365)
Recoveries	10,330	13,891	8,522	29,236
Written-offs	(199,396)	(484,472)	(165,172)	(322,488)
Balance at end of the period/year	4,862,342	633,384	4,235,487	426,936

Notes to the Condensed Consolidated Financial Statements

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

20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Movement of allowance for impairment losses on loans and advances to customers by customer type:

	As at 30 June 2015		As at 31 December 2014	
	Corporate	Personal	Corporate	Personal
Balance at beginning of the period/year	3,931,138	731,285	3,596,857	572,181
Impairment allowance charged (Note 11)	1,037,428	489,674	737,193	241,391
Unwinding of discount on allowance	(31,618)	(2,534)	(31,527)	(3,770)
Recoveries	14,924	9,297	29,236	8,522
Written-offs	(618,408)	(65,460)	(400,621)	(87,039)
Balance at end of the period/year	4,333,464	1,162,262	3,931,138	731,285

(d) Analysis of loans and advances to customers by collective and individual allowance assessments:

As at 30 June 2015	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed			
Total loans and advances						
– Corporate loans	180,383,903	269,793	1,706,988	1,976,781	182,360,684	
– Personal loans and advances	59,249,118	373,047	–	373,047	59,622,165	
Allowance for impairment losses	(4,474,428)	(387,914)	(633,384)	(1,021,298)	(5,495,726)	
Loans and advances to customers, net	235,158,593	254,926	1,073,604	1,328,530	236,487,123	

As at 31 December 2014	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed			
Total loans and advances						
– Corporate loans	161,265,272	327,066	1,210,629	1,537,695	162,802,967	
– Personal loans and advances	56,304,911	288,781	–	288,781	56,593,692	
Allowance for impairment losses	(3,741,532)	(493,955)	(426,936)	(920,891)	(4,662,423)	
Loans and advances to customers, net	213,828,651	121,892	783,693	905,585	214,734,236	

Notes to the Condensed Consolidated Financial Statements

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

21 INVESTMENT SECURITIES

	As at 30 June 2015	As at 31 December 2014
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	24,652,043	29,581,937
Unlisted		
– Trust fund and asset management plan	30,430,398	41,755,308
– Certificates of deposit	217,607	444,245
– Equity securities	9,560	9,560
– Debt securities	658,518	–
Subtotal	55,968,126	71,791,050
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	31,134,315	29,179,954
Unlisted		
– Debt securities	500,000	739,629
– Certificates of deposit	–	101,262
Subtotal	31,634,315	30,020,845
Loans and receivables		
Unlisted		
– Debt securities	125,903	112,631
– Wealth management products issued by other financial institution	11,786,750	3,045,588
– Trust fund and asset management plan	81,600,798	4,639,253
Subtotal	93,513,451	7,797,472
Total	181,115,892	109,609,367
Allowance for impairment losses	(469,529)	(218,721)
Investment securities, net	180,646,363	109,390,646
<i>Including: fair value of listed held-to-maturity securities</i>	31,919,648	29,956,771

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Trust fund and asset management plan is mainly focused on loans to customers, agreement deposit, financing bonds repurchase, bond, and other assets.

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

21 INVESTMENT SECURITIES (Continued)

Investment securities analyzed by issuer as follows:

	As at 30 June 2015	As at 31 December 2014
Available-for-sale financial assets		
Issuers in PRC mainland		
– Government	10,290,346	10,590,381
– Banks	10,363,827	12,997,826
– Corporates	4,873,995	6,437,975
– Other financial institutions	30,430,398	41,755,308
Subtotal	55,958,566	71,781,490
Equity securities	9,560	9,560
Total	55,968,126	71,791,050
Allowance for impairment losses	(231,289)	(218,721)
Available-for-sale financial assets, net	55,736,837	71,572,329
Held-to-maturity investments		
Issuers in PRC mainland		
– Government	15,996,634	12,356,121
– Banks	10,916,073	11,436,239
– Corporates	4,511,608	6,018,485
– Other financial institutions	210,000	210,000
Held-to-maturity investments, net	31,634,315	30,020,845
Loans and receivables		
Issuers in PRC mainland		
– Government	125,903	112,631
– Banks	11,786,750	3,045,588
– Other financial institutions	81,600,798	4,639,253
Total	93,513,451	7,797,472
Allowance for impairment losses	(238,240)	–
Loans and receivables, net	93,275,211	7,797,472

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22 INVESTMENT IN SUBSIDIARIES

	As at 30 June 2015	As at 31 December 2014
Investment cost	1,138,313	118,313

As at 30 June 2015, background of the subsidiaries is as follows:

Corporate Name	Incorporation Date	Place of incorporation	Registered capital	Proportion of ownership	Proportion of voting power	Business sector
Huiyin Financial Leasing Co., Ltd.	29 April 2015	He Fei, PRC	2,000,000	51%	51%	Financial services
Jinzhai Huiyin Rural Bank Co., Ltd.	25 June 2013	Lu An, PRC	80,000	41%	41%	Banking
Wuwei Huiyin Rural Bank Co., Ltd.	8 August 2010	Wu Hu, PRC	100,000	40%	40%	Banking

Huiyin Financial Leasing Co., Ltd was established on 29 April 2015, with registered capital of RMB2 billion, among which the Group accounted for 51%. Since the Group has control of this company, and this company is in scope of consolidation.

The Bank signed contracts with 3 shareholders who hold in total 29% of ownership and voting power of Jinzhai Huiyin Rural Bank Co., Ltd. These 3 shareholders will vote consistently with the Bank in deciding the financial and operating policies. Hence, the Bank has control of this rural bank, and this rural bank is in scope of consolidation.

Wuwei Huiyin Rural Bank Co., Ltd. was established in 2010, with registered capital of RMB100 million, among which the Group accounted for RMB40 million or 40%. Wuwei Huiyin Rural Bank Co., Ltd. officially commenced business with approval from CBRC on 8 August 2010. Although the Bank has no holding position, the recent evidence indicated that the Bank has a dominant position over its operating activities and in effect controls it. So the Group consolidated Wuwei Huiyin Rural Bank Co., Ltd. from 31 December 2014 onward.

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23 INVESTMENT IN ASSOCIATES

Investments in associates of the Group comprise of ordinary shares of unlisted companies as follows:

As at 30 June 2015

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	17,757,778	15,878,313	579,657	193,747	20%

As at 31 December 2014

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	16,421,307	14,735,589	850,906	306,968	20%

	Six months ended 30 June 2015	Year ended 31 December 2014
Balance at beginning of the period/year	325,605	334,741
Additions	–	–
Share of results, net of tax	50,288	76,377
Merger of subsidiaries by the end of 2014	–	(85,513)
Balance at end of the period/year	375,893	325,605

Chery Motor Finance Service Co., Ltd. was established in 2009, with registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the registered capital of Chery Motor Finance Service Co., Ltd. was authorized to increase to RMB1 billion. In 2014, the company has completed its shareholding reform, and on 30 September 2014, the company name was changed from Chery Motor Finance Service Co., Ltd. to Chery Huiyin Motor Finance Service Co., Ltd.

Notes to the Condensed Consolidated Financial Statements

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

24 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2015	1,207,827	65,654	1,061,625	158,692	2,493,798
Additions	–	905	75,825	101,238	177,968
Transfers in/(out)	1,230	–	–	(1,230)	–
Disposals	–	(81)	(21,997)	–	(22,078)
Other transfers out	–	–	–	(12,694)	(12,694)
As at 30 June 2015	1,209,057	66,478	1,115,453	246,006	2,636,994
Accumulated depreciation					
As at 1 January 2015	(486,283)	(36,321)	(556,160)	–	(1,078,764)
Depreciation charge	(31,430)	(4,617)	(67,251)	–	(103,298)
Disposals	–	56	21,885	–	21,941
As at 30 June 2015	(517,713)	(40,882)	(601,526)	–	(1,160,121)
Net book value					
As at 30 June 2015	691,344	25,596	513,927	246,006	1,476,873

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2014	1,226,610	60,594	824,811	310,312	2,421,327
Additions	663	11,147	231,481	63,117	306,408
Transfers in/(out)	–	–	24,912	(24,912)	–
Disposals	(18,446)	(6,495)	(21,459)	–	(46,400)
Other transfers out	–	–	–	(189,825)	(189,825)
The effect of business combination	–	408	1,880	–	2,288
As at 31 December 2014	1,207,827	65,654	1,061,625	158,692	2,493,798
Accumulated depreciation					
As at 1 January 2014	(419,475)	(34,839)	(454,823)	–	(909,137)
Depreciation charge	(76,123)	(7,754)	(122,111)	–	(205,988)
Disposals	9,315	6,272	20,774	–	36,361
As at 31 December 2014	(486,283)	(36,321)	(556,160)	–	(1,078,764)
Net book value					
As at 31 December 2014	721,544	29,333	505,465	158,692	1,415,034

For six months ended 30 June 2015, net losses from disposals of property, plant and equipment of the Group were RMB58 thousand (2014: gain of RMB44 million).

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24 PROPERTY, PLANT AND EQUIPMENT (Continued)

All lands and buildings of the Group are located outside Hong Kong.

The net book value of lands and buildings is analyzed based on the remaining lease terms as follows:

	As at 30 June 2015	As at 31 December 2014
Held in PRC mainland		
– on long-term leases (over 50 years)	36,169	30,265
– on medium-term leases (10-50 years)	655,175	691,279
	691,344	721,544

25 OTHER ASSETS

	As at 30 June 2015	As at 31 December 2014
Finance lease receivables (a)	2,900,606	–
Interest receivable (b)	2,684,592	2,046,921
Other receivables (c)	570,205	209,693
Less: impairment allowance	(29,536)	(29,265)
Funds to be settled	230,443	32,366
Long-term prepaid expenses	198,910	198,004
Land use rights (d, e)	166,785	168,933
Intangible assets (f)	96,085	98,041
Foreclosed assets	115	207
Others	83,897	45,550
	6,902,102	2,770,450

(a) Finance lease receivables

	As at 30 June 2015
Recovery within 1 year after balance sheet date	724,814
Recovery within 2 years after balance sheet date	676,960
Recovery within 3 years after balance sheet date	724,828
Recovery in subsequent annual	1,242,075
Subtotal	3,368,677
Less: unearned finance income	(439,056)
Less: impairment allowances on finance lease receivables	(29,015)
Finance lease receivables, net	2,900,606

Notes to the Condensed Consolidated Financial Statements

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

25 OTHER ASSETS (Continued)

(b) Interest receivable

	As at 30 June 2015	As at 31 December 2014
Placements with and loans and advances to banks, other financial institutions, and the central bank	198,616	81,233
Investment securities and financial assets at fair value through profit or loss	1,862,639	1,374,479
Loans and advances to customers	623,337	591,209
	2,684,592	2,046,921

(c) Other receivable

The Group's other receivable are analysed by age as follows:

As at 30 June 2015	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	526,474	32,842	10,889	570,205
Bad debt allowance	(17,333)	(9,229)	(2,974)	(29,536)
Net	509,141	23,613	7,915	540,669

As at 31 December 2014	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	194,461	6,498	8,734	209,693
Bad debt allowance	(16,761)	(3,770)	(8,734)	(29,265)
Net	177,700	2,728	-	180,428

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

	Six months ended 30 June 2015	Year ended 31 December 2014
Held in PRC mainland		
– on medium-term leases (10-50 years)	166,785	168,933

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

25 OTHER ASSETS (Continued)

(e) Land use rights

	Six months ended 30 June 2015	Year ended 31 December 2014
Cost		
Balance at beginning of the period/year	171,835	10,429
Additions	–	161,406
Balance at end of the period/year	171,835	171,835
Accumulated amortization		
Balance at beginning of the period/year	(2,902)	(1,758)
Additions	(2,148)	(1,144)
Balance at end of the period/year	(5,050)	(2,902)
Net book value		
At end of the period/year	166,785	168,933

(f) Intangible assets

Intangible assets of the Group mainly are computer software.

	Six months ended 30 June 2015	Year ended 31 December 2014
Cost		
Balance at beginning of the period/year	208,808	144,750
Additions	14,561	63,833
The effect of business combination	–	225
Balance at end of the period/year	223,369	208,808
Accumulated amortization		
Balance at beginning of the period/year	(110,767)	(78,473)
Additions	(16,517)	(32,294)
Balance at end of the period/year	(127,284)	(110,767)
Net book value		
At end of the period/year	96,085	98,041

Notes to the Condensed Consolidated Financial Statements

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

26 IMPAIRMENT ALLOWANCE

	As at 1 January 2015					As at 30 June 2015
	Additions	Recovery	Reversal	Write-off		
Loans and advances	(4,662,423)	(1,527,102)	(24,221)	34,152	683,868	(5,495,726)
Deposits with banks and other financial institutions	(3)	-	-	-	3	-
Foreclosed assets	(38)	-	-	-	-	(38)
Financial assets available-for-sale	(218,721)	(12,568)	-	-	-	(231,289)
Impairment allowances on investment securities- loans and receivables	-	(238,240)	-	-	-	(238,240)
Finance lease receivables	-	(29,015)	-	-	-	(29,015)
Other receivables	(29,265)	-	(271)	-	-	(29,536)
	(4,910,450)	(1,806,925)	(24,492)	34,152	683,871	(6,023,844)

	As at 1 January 2014					As at 31 December 2014
	Additions	Recovery	Reversal	Write-off		
Loans and advances	(4,169,038)	(978,584)	(37,758)	35,297	487,660	(4,662,423)
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)
Foreclosed assets	-	(38)	-	-	-	(38)
Financial assets available-for-sale	(60)	(218,661)	-	-	-	(218,721)
Other receivables	(33,134)	-	(254)	-	4,123	(29,265)
	(4,202,235)	(1,197,283)	(38,012)	35,297	491,783	(4,910,450)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2015	As at 31 December 2014
Banks in PRC mainland	56,681,437	20,547,051
Other financial institutions in PRC mainland	8,178,959	3,755,894
Banks outside PRC mainland	97,055	127,349
	64,957,451	24,430,294

Notes to the Condensed Consolidated Financial Statements

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

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2015	As at 31 December 2014
Banks in PRC mainland	2,045,306	1,681,996
Banks outside PRC mainland	37,456	–
	2,082,762	1,681,996

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2015	As at 31 December 2014
Securities sold under repurchase agreements	21,332,300	28,315,000
Bills sold under repurchase agreements	37,313,821	44,166,217
	58,646,121	72,481,217

30 DEPOSITS FROM CUSTOMERS

	As at 30 June 2015	As at 31 December 2014
Corporate demand deposits	117,183,600	114,346,369
Corporate time deposits	112,680,551	94,699,418
Retail demand deposits	30,974,093	28,152,428
Retail time deposits	54,807,363	45,892,107
Other deposits	33,780,694	34,779,721
	349,426,301	317,870,043
Including:		
Pledged deposits held as collateral	32,895,445	34,426,989

31 TAX PAYABLE

	As at 30 June 2015	As at 31 December 2014
Corporate income tax	399,414	501,167
Business tax and surcharges	307,147	287,647
Others	27,808	35,693
	734,369	824,507

Notes to the Condensed Consolidated Financial Statements

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

32 OTHER LIABILITIES

	As at 30 June 2015	As at 31 December 2014
Interest payable (a)	4,862,407	4,114,769
Dividends payable	1,854,231	133,739
Funds to be settled	1,801,915	2,972,917
Salary and welfare payable (b)	797,230	1,185,471
Entrusted services	86,155	27,526
Suspense accounts	36,049	37,010
Project funds payable	19,879	17,761
Advance from a potential investor (c)	–	1,416,430
Others	647,752	157,326
	10,105,618	10,062,949

(a) Interest payable

	As at 30 June 2015	As at 31 December 2014
Deposits and placement from banks and other financial institutions	308,270	71,740
Deposits from customers	4,411,987	3,676,363
Debt securities in issued	142,041	366,556
Interest payable for loan from central bank	109	110
	4,862,407	4,114,769

(b) Salary and welfare payable

	As at 30 June 2015	As at 31 December 2014
Short-term employee benefits	697,449	1,056,835
Defined contribution plans	18,811	48,042
Termination benefits	80,970	80,594
	797,230	1,185,471

Notes to the Condensed Consolidated Financial Statements

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

32 OTHER LIABILITIES (Continued)

(b) Salary and welfare payable (Continued)

Short-term employee benefits

	As at 1 January 2015	Increase in current period	Decrease in current period	As at 30 June 2015
Wages, bonuses, allowances and subsidies	728,162	431,239	(790,234)	369,167
Employee benefits	702	78	(244)	536
Social insurance	1,074	28,517	(28,486)	1,105
Including:				
Medical Insurance	1,037	24,587	(24,577)	1,047
Occupational Injury Insurance	25	1,604	(1,595)	34
Maternity Insurance	12	2,326	(2,314)	24
Housing fund	535	64,777	(62,899)	2,413
Labour union fee and staff education fee	12,549	14,774	(16,908)	10,415
Other short-term employee benefits	313,813	177	(177)	313,813
	1,056,835	539,562	(898,948)	697,449

	As at 1 January 2014	Increase in current year	Decrease in current year	Wuwei Rural Bank	As at 31 December 2014
Wages, bonuses, allowances and subsidies	713,837	1,156,327	(1,153,144)	11,142	728,162
Employee benefits	25	22	(47)	702	702
Social insurance	950	55,272	(55,148)	–	1,074
Including:					
Medical Insurance	917	48,437	(48,317)	–	1,037
Occupational Injury Insurance	23	2,802	(2,800)	–	25
Maternity Insurance	10	4,033	(4,031)	–	12
Housing fund	899	111,907	(112,271)	–	535
Labour union fee and staff education fee	13,397	22,951	(24,201)	402	12,549
Other short-term employee benefits	311,412	3,884	(1,483)	–	313,813
	1,040,520	1,350,363	(1,346,294)	12,246	1,056,835

The Group do not have non-monetary welfare.

Notes to the Condensed Consolidated Financial Statements

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

32 OTHER LIABILITIES (Continued)

(b) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2015	Increase in current period	Decrease in current period	As at 30 June 2015
Basic pension insurance	5,933	51,531	(51,651)	5,813
Unemployment Insurance	239	4,099	(4,089)	249
Annuity scheme	41,870	40,193	(69,314)	12,749
	48,042	95,823	(125,054)	18,811

	As at 1 January 2014	Increase in current year	Decrease in current year	Wuwei Rural Bank	As at 31 December 2014
Basic pension insurance	7,448	92,663	(94,178)	-	5,933
Unemployment Insurance	226	8,270	(8,257)	-	239
Annuity scheme	7,381	74,372	(40,059)	176	41,870
	15,055	175,305	(142,494)	176	48,042

Termination benefits

	As at 30 June 2015	As at 31 December 2014
Early retirement benefits	80,970	80,594

(c) Advance from a potential investor

The Bank received HK\$1,790 million (RMB1,420 million equivalent) advance on 31 December 2014 from a potential shareholder for its subscription to the Bank's private placement. Due to certain prerequisite conditions for the capital increase not fulfilled, the Bank repaid the advance, together with interest paying at relevant demand deposit rate to this potential investor on 16 January 2015.

Notes to the Condensed Consolidated Financial Statements

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

33 DEFERRED INCOME TAXES

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

	Six months ended 30 June 2015	Year ended 31 December 2014
Balance at beginning of the period/year	955,787	1,113,242
Charged to income statement	67,130	109,257
Credited to shareholders' equity	(16,378)	(266,712)
Balance at end of the period/year	1,006,539	955,787

Items included in deferred tax assets and liabilities are as follows:

	As at 30 June 2015	As at 31 December 2014
Deferred tax assets		
Impairment allowance for assets	838,869	684,427
Salary and welfare payable	126,990	223,436
Fair value changes of available-for-sale financial assets	20,092	36,470
Others	21,778	13,321
	1,007,729	957,654
Deferred income tax liabilities		
Fair value changes of financial assets at fair value through profit or loss	(1,190)	(1,867)
Deferred tax assets, net	1,006,539	955,787

Deferred taxes taken to the statement of comprehensive income comprise the following temporary differences:

	Six months ended 30 June	
	2015	2014
Impairment allowance for assets	154,442	43,864
Salary and welfare payable	(96,446)	(18,534)
Fair value changes of financial assets at fair value through profit or loss	4,115	(6,414)
Others	5,019	237
	67,130	19,153

Notes to the Condensed Consolidated Financial Statements

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

34 DEBT SECURITIES ISSUED

	As at 30 June 2015	As at 31 December 2014
Subordinated debts with fixed rate-2026 (a)	3,992,582	3,992,365
Financial bonds for SMEs-2016 (b)	2,798,177	2,798,041
Financial bonds for SMEs-2018 (c)	2,197,800	2,197,691
Certificates of deposit (d)	41,138,618	9,762,896
	50,127,177	18,750,993

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. According to CBRC's requirement, these debts are qualified for inclusion as supplementary capital in the calculation of capital adequacy ratio in 2012. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.8 billion of financial bonds designated for lending to small and medium size enterprises ("SMEs") on 19 March 2013 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.30%, paid annually.
- (c) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (d) The Bank issued 27 certificates of deposit issued with total face value of RMB11.9 billion. The maturity of the certificates rang from three months to one year.

The Bank issued 107 certificates of deposit with total face value of RMB51.48 billion. The maturity of the certificates rang from one month to two years. The outstanding amount is RMB41.96 billion in face values at the end of 30 June 2015.

As at 30 June 2015, there are no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

Notes to the Condensed Consolidated Financial Statements

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

35 SHARE CAPITAL AND CAPITAL RESERVE

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 30 June 2015	As at 31 December 2014
Number of authorized shares fully paid in issue (in thousands)	11,049,819	11,049,819

Transactions of the following natures are recorded in the capital reserve:

- (I) share premium arising from the issuance of shares at prices in excess of their par value;
- (II) donations received from shareholders; and
- (III) any other items required by the PRC regulations.

Capital surplus can be utilized for the issuance of stock dividend or for increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 30 June 2015	As at 31 December 2014
Share premium	6,751,041	6,751,041

36 OTHER RESERVE

	Surplus reserve (a)	General reserve (b)
As at 1 January 2014	3,011,585	3,062,782
Appropriation to surplus reserve	1,059,669	–
Appropriation to general reserve	–	680,678
As at 31 December 2014	4,071,254	3,743,460
Appropriation to surplus reserve	567,022	–
Appropriation to general reserve	–	972,833
As at 30 June 2015	4,638,276	4,716,293

Notes to the Condensed Consolidated Financial Statements

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

36 OTHER RESERVE (Continued)

(a) Surplus reserve

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in statutory financial statements to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The Bank can appropriate to the discretionary surplus reserve after statutory surplus reserve have been made.

As at 30 June 2015 and 31 December 2014, the Bank's statutory surplus reserve balances were RMB2,528,472,000 and RMB2,528,472,000 respectively. The others were discretionary surplus reserve.

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions"(the "Requirements") issued by Ministry of Finance on 30 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012.

37 DIVIDENDS

The Group and the Bank	Six months ended 30 June	
	2015	2014
Dividends declared for the period	1,755,784	1,723,772
Dividends per ordinary share (in RMB Yuan)	0.159	0.156
Dividends paid during the period	35,292	1,658,911

The final dividend of RMB0.159 per share in respect of year ended 31 December 2014 amounting to RMB1,756 million in total has been proposed by the directors and has been approved by the shareholders in the general meeting.

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

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank
- (iii) Allocations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders' equity.

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

Notes to the Condensed Consolidated Financial Statements

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

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments that the Group has committed to extend to its customers:

	As at 30 June 2015	As at 31 December 2014
Bank bills acceptance	49,236,331	50,096,255
Letters of credit issued	2,193,196	1,892,629
Letters of guarantee issued	3,214,797	2,783,560
Loan commitment	8,924,500	5,814,673
Unused credit card lines	3,395,686	2,793,824
	66,964,510	63,380,941

(b) Capital commitments

	As at 30 June 2015	As at 31 December 2014
Contracted but not provided for	174,835	145,588
Authorized but not contracted for	1,896,323	15,633
	2,071,158	161,221

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 30 June 2015	As at 31 December 2014
Within 1 year	193,548	186,218
Between 1 year to 5 years	571,139	549,690
Later than 5 years	413,735	244,582
	1,178,422	980,490

Notes to the Condensed Consolidated Financial Statements

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

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2015 and 31 December 2014, the outstanding principal value of the treasury bonds sold by the Group were RMB1.7 billion and RMB1.6 billion respectively.

(e) Legal proceedings

As at 30 June 2015 and 31 December 2014, there were no significant legal proceedings outstanding against the Group.

39 PLEDGED ASSETS

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and Ministry of Finance.

	As at 30 June 2015	As at 31 December 2014
Available-for-sale financial assets	10,583,186	14,754,839
Held-to-maturity investments	17,003,454	10,700,412
Securities held under resale agreements	–	3,321,899
Bills held under resale agreements	34,527,028	41,960,614
Discounted bills	2,859,728	2,163,771
Total	64,973,396	72,901,535

40 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2015	As at 31 December 2014
Financial guarantees and credit related commitments	31,917,972	34,467,165

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

Notes to the Condensed Consolidated Financial Statements

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

41 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2015		
	Pre-tax amount	Tax charge	Net-of-tax amount
Other comprehensive income	(145,881)	36,470	(109,411)
Fair value changes in available-for-sale	67,269	(16,817)	50,452
Deduct: Included in the current profit and loss	(1,755)	439	(1,316)
Other comprehensive income for the period	(80,367)	20,092	(60,275)

	Year ended 31 December 2014		
	Pre-tax amount	Tax charge	Net-of-tax amount
Other comprehensive income	(1,212,729)	303,182	(909,547)
Fair value changes in available-for-sale	1,014,800	(253,700)	761,100
Deduct: Included in the current profit and loss	52,048	(13,012)	39,036
Other comprehensive income for the year	(145,881)	36,470	(109,411)

42 STRUCTURED ENTITIES

Unconsolidated structured entities

a) *Unconsolidated structured entities managed by the Group*

The unconsolidated structure entities managed by the Group are mainly wealth management products ("WMP") issued and managed by the Bank 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 related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these wealth management products. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 30 June 2015, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB15,835 million(31 December 2014: 10,442 million). As at 30 June 2015, the Group's maximum exposure to these unconsolidated structured entities is zero.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its interest in WMP vehicles disclosed above during the period ended 30 June 2015. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2015, no loss was incurred by the WMP vehicles relating to the Group's interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

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

42 STRUCTURED ENTITIES (Continued)

Unconsolidated structured entities (Continued)

b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products, the trust fund and asset management plan schemes issued by other independent third parties during the period ended 30 June 2015. The Group classifies these assets into “loans and receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities during the period ended 30 June 2015.

The table below shows the total assets and scale of unconsolidated structured entities invested by the Group as at 30 June 2015, as well as its maximum exposure to loss in relation to those interests.

At 30 June 2015	Carrying Value	Maximum Exposure to Loss	Total Scale
Loans and receivables			
– Wealth management products	11,786,750	11,786,750	Note 1
– Trust fund and asset management plan	81,489,912	81,489,912	Note 1
Available-for-sale financial assets			
– Trust fund and asset management plan	30,630,326	30,630,326	Note 1

At 31 December 2014	Carrying Value	Maximum Exposure to Loss	Total Scale
Loans and receivables			
– Wealth management products	3,045,588	3,045,588	Note 1
Available-for-sale financial assets			
– Trust fund and asset management plan	38,509,165	38,509,165	38,509,165

Note 1: There is no public available information to disclose regarding to total scale of wealth management products issued and trust fund and asset management plan managed by other independent third parties.

43 NOTES TO THE STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flow, cash and cash equivalents comprises the following balances with an original maturity of less than three months and are used for the purpose of meeting short-term cash commitments:

	As at 30 June 2015	As at 31 December 2014
Cash	1,152,234	1,067,900
Surplus reserve with central bank	15,687,311	18,178,612
Deposits and placements with banks and other financial institutions	8,804,775	13,881,410
	25,644,320	33,127,922

Notes to the Condensed Consolidated Financial Statements

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44 CREDIT ASSETS SECURITISATION TRANSACTIONS

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains 5% interests in each tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 30 June 2015, loans with an original carrying amount of RMB3,087 million (2014: RMB3,087 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2015, the carrying amount of assets that the Group continued to recognise was RMB57 million (2014: RMB154 million), and was recognized as available-for-sale.

45 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below listed major related legal entities of the Group:

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Anhui Province Energy Group Co.	Major shareholder	9.47
Xiandai Chuangxin Holdings Ltd.	Major shareholder	9.04
China Vanke Co., Ltd.	Major shareholder	8.00
Anhui Guoyuan Holding (Group) Co.	Major shareholder	7.19
Anhui Credit Guaranty Group Co.	Major shareholder	6.81

(2) Related party transactions and balances

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

a) Transactions with major shareholders

As at balance sheet dates stated above, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 30 June 2015	As at 31 December 2014
Loans and advances to customers	171,242	29,958
Investment securities	–	29,870
Placements from banks and other financial institutions	31,826	49,210
Deposits from customers	864,678	863,123
Letters of guarantee	–	2,600
	1,067,746	974,761

Notes to the Condensed Consolidated Financial Statements

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

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

a) Transactions with major shareholders (Continued)

	As at 30 June 2015	As at 31 December 2014
Loans and advances to customers	6.60%	4.60%~6.72%
Investment securities	Nil	4.72%
Placements from banks and other financial institutions	0.42%~3.30%	0.42%~3.30%
Deposits from customers	0.35%~3.30%	0.42%~3.30%

As for the periods stated below, the interest income and expense of loans and deposits with respect to major shareholders are as follows:

	Six months ended 30 June	
	2015	2014
Interest income	3,120	5,277
Interest expense	7,213	2,746

b) Transactions with other related parties

As at the balance sheet date, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 30 June 2015	As at 31 December 2014
Placements with banks and other financial institutions	300,000	800,000
Loans and advances to customers	531	597
Placements from banks and other financial institutions	91,086	347,209
Deposits from customers	10,653	14,884
	402,270	1,162,690

	As at 30 June 2015	As at 31 December 2014
Placements with banks and other financial institutions	4.70%	4.70%~5.00%
Loans and advances to customers	4.31~6.00%	4.58%~6.40%
Placements from banks and other financial institutions	0.42%~0.72%	0.39%~0.72%
Deposits from customers	0.35%~0.42%	0.42%~5.50%

The interest income and expense of loans and deposits with respect to other related parties are as follows:

	Six months ended 30 June	
	2015	2014
Interest income	12,197	7,103
Interest expense	43	69

Notes to the Condensed Consolidated Financial Statements

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

46 SEGMENT ANALYSIS

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

Corporate banking

- Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

- Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

- Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

- Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in Anhui Province and the Yangtze River Delta area of the PRC. All information disclosed is based on the locations of bank branches.

Notes to the Condensed Consolidated Financial Statements

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

46 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2015				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	5,946,621	1,756,786	5,659,831	90,568	13,453,806
Net interest expense to external customers	(2,641,437)	(721,825)	(3,363,169)	(27,531)	(6,753,962)
Intersegment net interest income/(expense)	531,803	96,482	(628,285)	-	-
Net interest income	3,836,987	1,131,443	1,668,377	63,037	6,699,844
Net fee and commission income	467,194	165,131	269,605	126	902,056
Net trading gains	-	-	(2,237)	-	(2,237)
Net gains from investment securities	-	-	59,435	-	59,435
Dividends	-	-	440	-	440
Other operating income	-	-	-	47,308	47,308
Operating expenses	(1,209,296)	(520,061)	(180,330)	(35,501)	(1,945,188)
– Depreciation and amortization	(80,211)	(69,884)	(2,627)	(1,795)	(154,517)
Impairment losses on assets	(732,431)	(694,965)	(346,500)	(33,029)	(1,806,925)
Share of profits of associates	-	-	-	50,288	50,288
Profit before income tax	2,362,454	81,548	1,468,790	92,229	4,005,021
Capital expenditure	98,690	85,981	3,232	4,626	192,529

	As at 30 June 2015				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	178,808,788	60,618,765	327,449,545	7,272,384	574,149,482
<i>Including: investment in associates</i>				375,893	375,893
Deferred tax assets					1,006,539
Total assets					575,156,021
Segment liabilities	(266,138,205)	(86,575,629)	(175,863,119)	(7,680,041)	(536,256,994)
Off-balance sheet credit commitments	63,041,680	3,395,686	-	527,144	66,964,510

Notes to the Condensed Consolidated Financial Statements

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

46 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2014				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	5,405,440	1,660,112	4,228,020	11,002	11,304,574
Net interest expense to external customers	(2,549,493)	(588,663)	(2,802,455)	(2,765)	(5,943,376)
Intersegment net interest income/(expense)	66,689	332,422	(399,111)	-	-
Net interest income	2,922,636	1,403,871	1,026,454	8,237	5,361,198
Net fee and commission income	290,996	147,346	29,242	(7)	467,577
Net trading gains	-	-	48,752	-	48,752
Net gains from investment securities	-	-	41,700	-	41,700
Other operating income	-	-	-	81,180	81,180
Operating expenses	(1,223,304)	(534,754)	(56,747)	(20,029)	(1,834,834)
– Depreciation and amortization	(70,451)	(61,567)	(364)	(396)	(132,778)
Impairment losses on assets	(292,810)	(126,286)	(54,038)	(1,143)	(474,277)
Share of profits of associates	-	-	-	39,324	39,324
Profit before income tax	1,697,518	890,177	1,035,363	107,562	3,730,620
Capital expenditure	69,857	61,049	361	8	131,275

	As at 30 June 2014				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	154,216,282	55,972,854	230,414,605	1,407,768	442,011,509
<i>Including: investment in associates</i>				374,065	374,065
Deferred tax assets					954,475
Total assets					442,965,984
Segment liabilities	(235,412,957)	(75,150,440)	(95,665,947)	(3,414,478)	(409,643,822)
Off-balance sheet credit commitments	72,514,032	2,370,448	-	-	74,884,480

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimize 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 controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

47.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office and reported to management regularly.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement

(i) *Loans and advances to banks and other financial institutions*

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(ii) *Loans and advances and off-balance sheet commitments*

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined by the Guideline as follows:

Pass: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

(iii) *Debt securities and other bills*

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iv) *Other financial assets classified as loans, receivables and available-for-sale financial assets*

Other financial assets classified as loans receivables available-for-sale financial assets, include wealth management products issued and managed by other banks, trust plans and asset management plans. The Group set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collaterals, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts etc.

The fair value of collaterals should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipt	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Risk limit control and mitigation policies (Continued)

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, they carry the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

47.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2015	As at 31 December 2014
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	68,656,801	75,352,968
Deposits with banks and other financial institutions	13,461,235	11,352,332
Placement with banks and other financial institutions	18,431,423	9,232,910
Financial assets at fair value through profit or loss	4,992,540	2,963,949
Derivative financial assets	2,932	1,878
Financial assets held under resale agreements	41,563,963	53,200,619
Loans and advances to customers	236,487,123	214,734,236
Investment securities-available-for-sale	55,727,277	71,562,769
Investment securities-held-to-maturity	31,634,315	30,020,845
Investment securities-loans and receivables	93,275,211	7,797,472
Other financial assets	6,356,310	2,259,715
	570,589,130	478,479,693
Credit risk exposures relation to off-balance sheet items are as follows:		
Bank acceptance	49,236,331	50,096,255
Letters of credit	2,193,196	1,892,629
Letters of guarantee	3,214,797	2,783,560
Loan commitments	8,924,500	5,814,673
Unused credit card lines	3,395,686	2,793,824
	66,964,510	63,380,941

The above table represents the worst-case scenario of credit risk exposure to the Group and the Bank at 30 June 2015 and 31 December 2014, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As mentioned above, 41.45% of on-balance-sheet exposure is attributable to loans and advances to customers (2014: 44.88%).

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 96.57% of the loans and advances portfolio is categorized as Pass of the five-category system (2014: 97.93%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 97.71% of the loans and advances portfolio are considered to be neither past due nor impaired (2014: 98.53%);

47.1.4 Deposits with banks, placement with and loans to banks and financial institutions and financial assets held under resale agreements

	As at 30 June 2015	As at 31 December 2014
Neither overdue nor impaired (i)	73,456,621	73,785,861
Impaired (ii)	–	3
	73,456,621	73,785,864
Less: Allowance for impairment losses	–	(3)
Net	73,456,621	73,785,861

(i) Neither overdue nor impaired

	As at 30 June 2015	As at 31 December 2014
Commercial banks in PRC mainland	58,110,464	51,786,398
Other financial institutions in PRC mainland	14,626,903	21,999,463
Commercial banks outside PRC mainland	719,254	–
	73,456,621	73,785,861

(ii) Impaired

As at 30 June 2015, there were no impaired deposits with banks, placement with and loans to banks and other financial institutions and financial assets held under resale agreements for the Group. As at 31 December 2014, the Group has considered all the impaired deposits with banks and made fully impairment loss.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers

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

Concentrations of credit risk of loans and advances to customers by industry are analysed as follow:

	As at 30 June 2015		As at 31 December 2014	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	48,978,244	20	41,983,001	19
Manufacturing	40,128,962	17	40,946,313	19
Public utilities	29,489,275	12	19,600,277	9
Real estate	15,677,712	6	16,508,235	8
Construction	14,436,265	6	14,137,822	6
Transportation	6,556,917	3	6,281,562	3
Energy and chemistry	3,412,703	1	3,448,059	2
Education and media	1,863,915	1	1,911,795	1
Catering and travelling	1,662,688	1	1,547,953	1
Financial services	971,964	–	833,616	–
Others	2,327,667	1	2,024,570	1
Discounted bills	16,854,372	7	13,579,764	6
Subtotal	182,360,684	75	162,802,967	75
Personal loans and advances				
Mortgages	41,906,376	18	40,069,638	17
Revolving loans for private business	10,615,862	4	10,420,318	5
Others	7,099,927	3	6,103,736	3
Subtotal	59,622,165	25	56,593,692	25
Total loans and advances to customers, before impairment allowance	241,982,849	100	219,396,659	100

Analysis of loans and advances to customers by industry is conducted based on the industries of the borrowers.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type:

	As at 30 June 2015	As at 31 December 2014
Unsecured	15,042,193	11,722,745
Guaranteed	73,385,604	69,701,605
Collateralized	128,668,733	116,699,214
Pledged	24,886,319	21,273,095
Total loans and advances to customers	241,982,849	219,396,659

(c) Analysis of loans and advances to customers by geographical area

	As at 30 June 2015			As at 31 December 2014		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	226,010,571	93.40%	1.01%	203,880,486	92.93%	0.86%
Pan Yangtze River Delta	15,972,278	6.60%	0.45%	15,516,173	7.07%	0.47%
Total loans and advances to customers	241,982,849	100.00%	0.97%	219,396,659	100.00%	0.83%

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

	As at 30 June 2015		As at 31 December 2014	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	178,121,146	58,322,427	160,532,288	55,647,626
Overdue but not impaired (f)	2,262,758	926,690	732,984	657,285
Impaired (g)	1,976,780	373,048	1,537,695	288,781
Total	182,360,684	59,622,165	162,802,967	56,593,692
Less: collectively assessed impairment allowance	(3,700,080)	(1,162,262)	(3,504,202)	(731,285)
Individually assessed impairment allowance	(633,384)	-	(426,936)	-
Total impairment allowance	(4,333,464)	(1,162,262)	(3,931,138)	(731,285)
Net	178,027,220	58,459,903	158,871,829	55,862,407

(e) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired of single corporate customer can be assessed by reference to the five-category system adopted by the Group.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

(e) Loans and advances neither past due nor impaired (Continued)

As at 30 June 2015	Five-category classification			
	Neither overdue nor impaired	Pass	Special- mention	Total
Corporate loans				
– Commercial loans	157,597,403	3,669,371		161,266,774
– Discounted bills	16,854,372	–		16,854,372
Subtotal	174,451,775	3,669,371		178,121,146
Personal loans and advances	58,317,103	5,324		58,322,427
Total	232,768,878	3,674,695		236,443,573

As at 31 December 2014	Five-category classification			
	Neither overdue nor impaired	Pass	Special- mention	Total
Corporate loans				
– Commercial loans	143,439,743	3,512,781		146,952,524
– Discounted bills	13,579,764	–		13,579,764
Subtotal	157,019,507	3,512,781		160,532,288
Personal loans and advances	55,643,687	3,939		55,647,626
Total	212,663,194	3,516,720		216,179,914

(f) Loans and advances overdue but not impaired

Analysis of assets overdue but not impaired by overdue days:

As at 30 June 2015	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
	Corporate loans	680,068	296,117	223,948	1,062,625
Personal loans and advances	340,373	197,390	159,912	229,015	926,690
Total	1,020,441	493,507	383,860	1,291,640	3,189,448

As at 31 December 2014	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
	Corporate loans	166,911	239,384	138,104	188,585
Personal loans and advances	274,259	146,161	95,890	140,975	657,285
Total	441,170	385,545	233,994	329,560	1,390,269

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

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

	As at 30 June 2015	As at 31 December 2014
Corporate loans	1,976,781	1,537,695
Personal loans and advances	373,047	288,781
Total	2,349,828	1,826,476
Fair value of collateral		
Corporate loans	571,758	743,234
Personal loans and advances	327,575	217,497
Total	899,333	960,731

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

(h) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria, which, in the judgment of management, indicate that payment will most likely continue. These policies are under continuous review. Restructuring is most commonly applied to term loans. As at 30 June 2015, there were no renegotiated loans that would otherwise be overdue or impaired at the Group and the Bank (2014: Nil).

(i) Overdue loans and advances by overdue days and collateral type

	As at 30 June 2015				
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	70,379	942,629	13,197	198	1,026,403
Guaranteed	734,988	712,715	147,433	84	1,595,220
Collateralized	1,106,109	1,349,308	256,563	9,618	2,721,598
Pledged	57,536	44,090	64,907	-	166,533
	1,969,012	3,048,742	482,100	9,900	5,509,754

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

(i) Overdue loans and advances by overdue days and collateral type (Continued)

	As at 31 December 2014				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	214,876	31,859	7,204	215	254,154
Guaranteed	474,373	323,519	105,722	134	903,748
Collateralized	860,577	827,143	170,468	11,002	1,869,190
Pledged	2,259	90,427	53,762	–	146,448
	1,552,085	1,272,948	337,156	11,351	3,173,540

47.1.6 Debt securities

The table below presents an analysis of debt securities by external credit rating companies:

As at 30 June 2015	Financial assets at fair value through profit or loss (a)	Available- for- sale (b)	Held-to- maturity (a)	Loans and receivables (c)	Total
RMB securities					
AAA	–	1,134,847	3,864,492	–	4,999,339
AA- to AA+	293,036	3,154,254	3,508,069	–	6,955,359
A- to A+	–	304,680	127,432	–	432,112
Unrated	4,699,504	51,364,785	24,134,322	93,513,451	173,712,062
Total	4,992,540	55,958,566	31,634,315	93,513,451	186,098,872
Allowance for impairment losses	–	(231,229)	–	(238,240)	(469,469)
Net balance	4,992,540	55,727,337	31,634,315	93,275,211	185,629,403

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 Debt securities (Continued)

As at 31 December 2014	Financial assets at fair value through profit or loss (a)	Available-for-sale (b)	Held-to-maturity (a)	Loans and receivables (c)	Total
RMB securities					
AAA	139,604	1,633,663	3,866,326	–	5,639,593
AA- to AA+	409,836	4,709,506	3,757,439	–	8,876,781
A- to A+	–	744,057	776,729	–	1,520,786
Unrated	2,414,509	64,694,264	21,620,351	7,797,472	96,526,596
Total	2,963,949	71,781,490	30,020,845	7,797,472	112,563,756
Allowance for impairment losses	–	(218,661)	–	–	(218,661)
Net balance	2,963,949	71,562,829	30,020,845	7,797,472	112,345,095

- (a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by Ministry of Finance of the PRC (“MOF”), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.
- (b) The unrated available-for-sale held by the Group mainly represent investments and trading securities issued by MOF, the PBOC and policy banks, asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed wealth management products. The principle and income of asset management schemes and other investment funds are mainly guaranteed by financial institutions or third party companies, or secured by collateral. The Bank sets credit risk limit to the counter party banks and third party companies to mitigate the risk associated therewith.
- (c) Loans and receivables mainly include the principal-guaranteed wealth management products issued by other banks and other fixed-income financial instruments.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.7 Foreclosed collateral

	As at 30 June 2015	As at 31 December 2014
Property and land use rights	153	153
Others	–	92
Total	153	245
Allowance for impairment losses(Note 26)	(38)	(38)
Net balance	115	207

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified in the balance sheet within other assets.

47.2 Market risk

47.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also establishes daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyse market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.2.2 Market risk measurement techniques

The Group adopts sensitivity analysis to evaluate the exposure to interest rate and foreign exchange rate risks for its trading and non-trading investment portfolio, in which the Group calculates the gap between interest-bearing assets and liabilities which will mature within certain period or require re-pricing on a regular basis and performs sensitivity analysis under changes of bench mark rates, market rates and foreign exchange rates based on the gap computed above.

47.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The Group performs business in PRC mainland in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest bearing loans and deposits in the same direction but not in parallel.

According to PBOC's requirement, RMB loan rates could differ from PBOC's stipulated rates, while the ceiling for RMB deposit rate is 50% above the stipulated rate. Discount rate for RMB bills is market-oriented.

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.2.3 Interest rate risk (Continued)

As at 30 June 2015	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	68,656,801	-	-	-	-	1,152,234	69,809,035
Deposits with banks and other financial institutions	5,821,775	987,000	6,652,460	-	-	-	13,461,235
Placements with banks and other financial institutions	4,560,006	928,343	12,943,074	-	-	-	18,431,423
Financial assets at fair value through profit or loss	98,433	220,287	702,032	3,018,922	952,866	-	4,992,540
Derivatives financial assets	-	-	-	-	-	2,932	2,932
Financial assets held under resale agreements	28,499,100	3,663,818	9,401,045	-	-	-	41,563,963
Loans and advances to customers	55,949,972	21,119,955	91,868,531	57,540,161	10,008,504	-	236,487,123
Investment securities							
– available-for-sale	2,302,144	2,789,426	12,903,974	30,640,213	7,091,580	9,500	55,736,837
– held-to-maturity	847,315	1,343,544	3,430,868	14,777,771	11,234,817	-	31,634,315
– loans and receivables	7,070,315	16,731,633	55,215,881	14,257,382	-	-	93,275,211
Other financial assets	-	68,544	495,673	2,260,631	75,758	3,455,704	6,356,310
Total assets	173,805,861	47,852,550	193,613,538	122,495,080	29,363,525	4,620,370	571,750,924
Liabilities							
Borrowing from central banks	(50,000)	(50,000)	(60,000)	-	-	-	(160,000)
Deposits from banks and other financial institutions	(16,306,493)	(18,088,300)	(29,772,978)	(759,812)	(29,868)	-	(64,957,451)
Placements from banks and other financial institutions	(1,482,762)	(600,000)	-	-	-	-	(2,082,762)
Derivatives financial liabilities	-	-	-	-	-	(17,195)	(17,195)
Financial assets sold under repurchase agreements	(49,213,075)	(6,134,881)	(3,298,165)	-	-	-	(58,646,121)
Deposits from customers	(181,863,222)	(31,420,942)	(87,986,513)	(46,920,978)	(1,234,646)	-	(349,426,301)
Debt securities in issued	(3,930,914)	(4,357,994)	(34,194,283)	(3,651,405)	(3,992,581)	-	(50,127,177)
Other financial liabilities	-	-	-	-	-	(8,574,481)	(8,574,481)
Total liabilities	(252,846,466)	(60,652,117)	(155,311,939)	(51,332,195)	(5,257,095)	(8,591,676)	(533,991,488)
Total interest rate sensitivity gap	(79,040,605)	(12,799,567)	38,301,599	71,162,885	24,106,430	(3,971,306)	37,759,436

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

As at 31 December 2014	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	75,352,968	-	-	-	-	1,067,900	76,420,868
Deposits with banks and other financial institutions	7,567,949	832,923	2,951,460	-	-	-	11,352,332
Placements with banks and other financial institutions	4,565,160	915,375	3,552,375	200,000	-	-	9,232,910
Financial assets at fair value through profit or loss	89,605	620,628	249,383	1,175,145	829,188	-	2,963,949
Derivatives financial assets	-	48	-	-	-	1,830	1,878
Financial assets held under resale agreements	25,794,379	16,552,146	10,854,094	-	-	-	53,200,619
Loans and advances to customers	106,951,482	12,349,226	80,871,813	13,172,881	1,388,834	-	214,734,236
Investment securities							
- available-for-sale	3,111,058	6,397,290	19,545,903	34,838,089	7,670,489	9,500	71,572,329
- held-to-maturity	1,074,338	1,356,860	5,024,721	11,597,331	10,967,595	-	30,020,845
- loans and receivables	-	4,419,295	3,295,567	82,610	-	-	7,797,472
Other financial assets	-	-	-	-	-	2,259,715	2,259,715
Total assets	224,506,939	43,443,791	126,345,316	61,066,056	20,856,106	3,338,945	479,557,153
Liabilities							
Borrowing from central banks	(50,000)	(27,000)	(30,000)	-	-	-	(107,000)
Deposits from banks and other financial institutions	(734,640)	(2,980,000)	(19,963,771)	(717,917)	(33,966)	-	(24,430,294)
Placements from banks and other financial institutions	(1,681,996)	-	-	-	-	-	(1,681,996)
Derivatives financial liabilities	-	(38)	-	-	-	(2,353)	(2,391)
Financial assets sold under repurchase agreements	(44,470,073)	(17,160,097)	(10,851,047)	-	-	-	(72,481,217)
Deposits from customers	(176,116,643)	(37,019,561)	(64,810,417)	(39,910,430)	(12,992)	-	(317,870,043)
Debt securities in issued	(2,992,664)	(1,044,457)	(5,725,775)	(4,995,732)	(3,992,365)	-	(18,750,993)
Other financial liabilities	-	-	-	-	-	(8,692,626)	(8,692,626)
Total liabilities	(226,046,016)	(58,231,153)	(101,381,010)	(45,624,079)	(4,039,323)	(8,694,979)	(444,016,560)
Total interest rate sensitivity gap	(1,539,077)	(14,787,362)	24,964,306	15,441,977	16,816,783	(5,356,034)	35,540,593

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the Group's majority of interest-bearing assets is RMB. The potential impact on net interest income as at the balance sheet dates stated below with 100 bps changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 30 June 2015	As at 31 December 2014
100 bps up along the yield curve	699,340	1,321,252
100 bps down along the yield curve	(699,340)	(1,321,252)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group and the Bank.

Therefore, the actual changes of net profit may differ from the analysis above.

47.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 30 June 2015					
Assets					
Cash and balances with the central bank	69,735,146	73,349	30	510	69,809,035
Deposits with banks and other financial institutions	12,271,456	610,626	37,894	541,259	13,461,235
Placements with banks and other financial institutions	17,164,043	1,193,537	73,843	–	18,431,423
Financial assets at fair value through profit or loss	4,992,540	–	–	–	4,992,540
Derivative financial assets	2,917	15	–	–	2,932
Financial assets held under resale agreements	41,563,963	–	–	–	41,563,963
Loans and advances to customers	235,019,026	1,458,489	9,608	–	236,487,123
Investment securities					
– available-for-sale	55,736,837	–	–	–	55,736,837
– held-to-maturity	31,634,315	–	–	–	31,634,315
– loans and receivables	93,275,211	–	–	–	93,275,211
Other financial assets	6,356,273	37	–	–	6,356,310
Total assets	567,751,727	3,336,053	121,375	541,769	571,750,924
Liabilities					
Borrowing from central banks	(160,000)	–	–	–	(160,000)
Deposits from banks and other financial institutions	(64,859,562)	(834)	(97,055)	–	(64,957,451)
Placements from banks and other financial institutions	(608,990)	(1,473,772)	–	–	(2,082,762)
Derivative financial liabilities	(15,906)	(1,289)	–	–	(17,195)
Financial assets sold under repurchase agreements	(58,646,121)	–	–	–	(58,646,121)
Deposits from customers	(348,064,005)	(1,283,593)	(22,584)	(56,119)	(349,426,301)
Debt securities in issued	(50,127,177)	–	–	–	(50,127,177)
Other financial liabilities	(8,573,863)	(558)	(41)	(19)	(8,574,481)
Total liabilities	(531,055,624)	(2,760,046)	(119,680)	(56,138)	(533,991,488)
Net on-balance sheet financial position	36,696,103	576,007	1,695	485,631	37,759,436
Financial guarantees and credit commitments	64,496,251	2,372,937	82,940	12,382	66,964,510

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2014					
Assets					
Cash and balances with the central bank	76,367,545	51,545	53	1,725	76,420,868
Deposits with banks and other					
financial institutions	8,836,588	895,891	87,843	1,532,010	11,352,332
Placements with banks and other					
financial institutions	9,232,910	–	–	–	9,232,910
Financial assets at fair value through					
profit or loss	2,963,949	–	–	–	2,963,949
Derivative financial assets	1,177	701	–	–	1,878
Financial assets held under					
resale agreements	53,200,619	–	–	–	53,200,619
Loans and advances to customers	213,084,126	1,601,865	42,331	5,914	214,734,236
Investment securities					
– available-for-sale	71,572,329	–	–	–	71,572,329
– held-to-maturity	30,020,845	–	–	–	30,020,845
– loans and receivables	7,797,472	–	–	–	7,797,472
Other financial assets	2,259,706	9	–	–	2,259,715
Total assets	475,337,266	2,550,011	130,227	1,539,649	479,557,153
Liabilities					
Borrowing from central banks	(107,000)	–	–	–	(107,000)
Deposits from banks and other					
financial institutions	(24,288,122)	(14,823)	(127,349)	–	(24,430,294)
Placements from banks and other					
financial institutions	(1,006,937)	(675,059)	–	–	(1,681,996)
Derivative financial liabilities	(724)	(1,419)	(248)	–	(2,391)
Financial assets sold under					
repurchase agreements	(72,481,217)	–	–	–	(72,481,217)
Deposits from customers	(316,459,278)	(1,336,232)	(4,720)	(69,813)	(317,870,043)
Debt securities in issued	(18,750,993)	–	–	–	(18,750,993)
Other financial liabilities	(7,269,335)	(6,856)	(1)	(1,416,434)	(8,692,626)
Total liabilities	(440,363,606)	(2,034,389)	(132,318)	(1,486,247)	(444,016,560)
Net on-balance sheet financial position	34,973,660	515,622	(2,091)	53,402	35,540,593
Financial guarantees and					
credit commitments	61,093,141	2,215,147	43,239	29,414	63,380,941

Notes to the Condensed Consolidated Financial Statements

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47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 30 June 2015	As at 31 December 2014
1% of appreciation of FX against RMB	7,975	4,252
1% of depreciation of FX against RMB	(7,975)	(4,252)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by The Group and the Bank.

Therefore, the actual changes of net profit may differ from the analysis above.

47.3 Liquidity risk

47.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a banks' ability to replace due liabilities with acceptable costs are all key factors when evaluating its' exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 Maturity analysis

The table below analyzes the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

As at 30 June 2015	Repayable							Indefinite	Total
	on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue		
Cash and balances with the central bank	69,809,035	-	-	-	-	-	-	-	69,809,035
Deposits with banks and other financial institutions	3,044,325	2,777,450	987,000	6,652,460	-	-	-	-	13,461,235
Placements with banks and other financial institutions	-	6,855,612	936,464	10,639,347	-	-	-	-	18,431,423
Financial assets at fair value through profit or loss	-	10,000	-	912,660	3,117,014	952,866	-	-	4,992,540
Derivative financial assets	-	1,412	902	618	-	-	-	-	2,932
Financial assets held under resale agreements	-	28,499,100	3,663,818	9,401,045	-	-	-	-	41,563,963
Loans and advances to customers	-	12,334,808	21,317,615	92,637,215	60,687,943	46,351,322	3,158,220	-	236,487,123
Investment securities									
- available-for-sale	-	3,859,116	8,930,243	22,337,677	20,600,301	-	-	9,500	55,736,837
- held-to-maturity	-	272,405	609,973	2,632,550	16,884,570	11,234,817	-	-	31,634,315
- loans and receivables	-	7,070,315	16,731,633	55,215,881	14,257,382	-	-	-	93,275,211
Other financial assets (including deferred income tax assets)	129,630	981,743	703,611	1,859,779	3,665,027	1,294,299	120,779	1,006,539	9,761,407
Total assets	72,982,990	62,661,961	53,881,259	202,289,232	119,212,237	59,833,304	3,278,999	1,016,039	575,156,021
Borrowing from central banks	-	(50,000)	(50,000)	(60,000)	-	-	-	-	(160,000)
Deposits from banks and other financial institutions	(2,208,143)	(14,098,350)	(18,088,300)	(29,772,978)	(759,812)	(29,868)	-	-	(64,957,451)
Placements from banks and other financial institutions	-	(1,475,562)	(600,000)	-	-	-	-	(7,200)	(2,082,762)
Derivative financial liabilities	-	(928)	(831)	(6,325)	(9,111)	-	-	-	(17,195)
Financial assets sold under repurchase agreements	-	(49,213,075)	(6,134,881)	(3,298,165)	-	-	-	-	(58,646,121)
Deposits from customers	(159,628,685)	(22,605,060)	(31,222,134)	(88,525,578)	(46,242,773)	(1,202,071)	-	-	(349,426,301)
Debt securities in issued	-	(3,930,914)	(4,357,994)	(34,194,283)	(3,651,405)	(3,992,581)	-	-	(50,127,177)
Other financial liabilities (including deferred income tax liabilities)	(2,711,708)	(1,480,284)	(569,482)	(4,112,989)	(1,887,017)	(78,507)	-	-	(10,839,987)
Total liabilities	(164,548,536)	(92,854,173)	(61,023,622)	(159,970,318)	(52,550,118)	(5,303,027)	-	(7,200)	(536,256,994)
Net liquidity gap	(91,565,546)	(30,192,212)	(7,142,363)	42,318,914	66,662,119	54,530,277	3,278,999	1,008,839	38,899,027

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 Maturity analysis (Continued)

As at 31 December 2014	Repayable							Indefinite	Total
	on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue		
Cash and balances with the central bank	76,420,868	-	-	-	-	-	-	-	76,420,868
Deposits with banks and other									
financial institutions	3,116,959	4,450,990	832,923	2,951,460	-	-	-	-	11,352,332
Placements with banks and other									
financial institutions	-	4,565,160	915,375	3,552,375	200,000	-	-	-	9,232,910
Financial assets at fair value through									
profit or loss	-	20,003	309,514	329,909	1,475,334	829,189	-	-	2,963,949
Derivative financial assets	-	1,138	247	493	-	-	-	-	1,878
Financial assets held under									
resale agreements	-	25,794,379	16,552,146	10,854,094	-	-	-	-	53,200,619
Loans and advances to customers	-	19,208,262	13,416,543	85,837,282	49,208,632	45,384,445	1,679,072	-	214,734,236
Investment securities									
- available-for-sale	-	3,885,045	10,958,246	33,708,636	22,296,768	714,134	-	9,500	71,572,329
- held-to-maturity	-	499,968	1,141,689	3,477,915	13,878,518	11,022,755	-	-	30,020,845
- loans and receivables	-	-	4,419,295	3,295,567	82,610	-	-	-	7,797,472
Other financial assets (including									
deferred income tax assets)	146,789	333,831	786,941	766,176	215,287	1,682,008	254,452	1,281,392	5,466,876
Total assets	79,684,616	58,758,776	49,332,919	144,773,907	87,357,149	59,632,531	1,933,524	1,290,892	482,764,314
Borrowing from central banks	-	(50,000)	(27,000)	(30,000)	-	-	-	-	(107,000)
Deposits from banks and other									
financial institutions	(496,151)	(238,489)	(2,980,000)	(19,963,771)	(717,917)	(33,966)	-	-	(24,430,294)
Placements from banks and other									
financial institutions	(1,681,996)	-	-	-	-	-	-	-	(1,681,996)
Derivative financial liabilities	-	(1,646)	(312)	(433)	-	-	-	-	(2,391)
Financial assets sold under									
repurchase agreements	-	(44,470,073)	(17,160,097)	(10,851,047)	-	-	-	-	(72,481,217)
Deposits from customers	(155,767,124)	(20,349,519)	(37,019,561)	(64,810,417)	(39,910,430)	(12,992)	-	-	(317,870,043)
Debt securities in issued	-	(2,494,514)	(1,542,606)	(5,725,776)	(4,995,732)	(3,992,365)	-	-	(18,750,993)
Other financial liabilities (including									
deferred income tax liabilities)	(4,863,444)	(1,618,584)	(1,463,408)	(1,419,614)	(1,522,025)	(381)	-	-	(10,887,456)
Total liabilities	(162,808,715)	(69,222,825)	(60,192,984)	(102,801,058)	(47,146,104)	(4,039,704)	-	-	(446,211,390)
Net liquidity gap	(83,124,099)	(10,464,049)	(10,860,065)	41,972,849	40,211,045	55,592,827	1,933,524	1,290,892	36,552,924

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.3 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amount of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds required for guarantees and letters of credit are not so much as required for other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amount for credit commitment cannot represent the actual funds required.

As at 30 June 2015	Within		Over	Total
	1 year	1-5 years	5 years	
Bank acceptance	49,236,331	–	–	49,236,331
Letters of credit	2,179,783	13,413	–	2,193,196
Letters of guarantee	1,528,574	1,683,873	2,350	3,214,797
Loan commitments	8,874,500	50,000	–	8,924,500
Unused credit card lines	1,697,843	1,697,843	–	3,395,686
Total	63,517,031	3,445,129	2,350	66,964,510

As at 31 December 2014	Within		Over	Total
	1 year	1-5 years	5 years	
Bank acceptance	50,096,255	–	–	50,096,255
Letters of credit	1,864,155	28,474	–	1,892,629
Letters of guarantee	1,370,067	1,411,143	2,350	2,783,560
Loan commitments	5,509,273	305,400	–	5,814,673
Unused credit card lines	1,396,912	1,396,912	–	2,793,824
Total	60,236,662	3,141,929	2,350	63,380,941

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques 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 – 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 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are China Bond and Bloomberg.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

(b) Financial instruments not measured at fair value

Fair value measured is conducted at a specific time, based on the information related to market or finance instrument. Fair value measured of finance instrument are based on the following methods and hypothesis.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, placements from banks and other financial institutions, deposits from banks and other financial institutions, Financial assets sold under repurchase agreements, Interest receivable, interest payable, other assets and other liabilities are mainly priced at market interest rates and mature within one year or use floating interest rate. Accordingly, the carrying values approximate the fair values.

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

The ending balance of finance lease receivable is calculated through effective interest rate method. Since internal rate of return of finance lease is linked up with the interest rate of PBOC and time pacing, their carrying values approximate the fair values.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including investments classified as held-to-maturity, loans and receivables and debt securities in issued.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

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

	As at 30 June 2015				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	31,634,315	–	31,919,648	–	31,919,648
Investment securities					
– Loans and receivables	93,275,211	–	114,828	93,149,308	93,264,136
Financial Liabilities					
Debt securities issued	(50,127,177)	–	(50,164,099)	–	(50,164,099)

	As at 31 December 2014				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	30,020,845	–	29,956,771	–	29,956,771
Investment securities					
– Loans and receivables	7,797,472	–	106,564	7,669,559	7,776,123
Financial Liabilities					
Debt securities issued	(18,750,993)	–	(18,853,112)	–	(18,853,112)

(i) Loans and receivables and held-to-maturity investments

Investment securities classified as held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

(ii) Debt securities in issued

If the fair value is based on quoted market prices, the fair value measurement 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 fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the financial statements is calculated as the present value of the estimated future cash flows based on observable yield curves. The difference between carrying value and fair value are not significant.

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 30 June 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	4,992,540	–	4,992,540
Derivative financial assets	–	2,932	–	2,932
Available-for-sale				
– Debt securities	–	25,310,561	–	25,310,561
– Certificates of deposit	–	217,607	–	217,607
– Equity securities	–	–	9,500	9,500
– Asset management schemes by securities firms or trust companies	–	570,444	29,628,725	30,199,169
Total assets	–	31,094,084	29,638,225	60,732,309
Derivative financial liabilities	–	(17,195)	–	(17,195)
Total liabilities	–	(17,195)	–	(17,195)
As at 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	2,963,949	–	2,963,949
Derivative financial assets	–	1,878	–	1,878
Available-for-sale				
– Debt securities	–	29,581,937	–	29,581,937
– Certificates of deposit	–	444,245	–	444,245
– Equity securities	–	–	9,500	9,500
– Asset management schemes by securities firms or trust companies	–	–	27,181,866	27,181,866
– Others	–	3,027,482	11,327,299	14,354,781
Total assets	–	36,019,491	38,518,665	74,538,156
Derivative financial liabilities	–	(2,391)	–	(2,391)
Total liabilities	–	(2,391)	–	(2,391)

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

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 all observable and obtainable from open market.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external values, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The following table presents the changes in level 3 instruments:

	Available-for-sale
Balance at 1 January 2015	38,518,665
– Additions	–
– Disposals	(8,880,440)
– The effect of the consolidation of structural entity	–
Balance at 30 June 2015	29,638,225
Total gains for the period included in profit or loss for assets held at 30 June 2015	440

	Available-for-sale
Balance at 1 January 2014	1,070,732
– Additions	88,094,761
– Disposals	(40,734,237)
– The effect of the consolidation of structural entity	(9,912,591)
Balance at 31 December 2014	38,518,665
Total gains for the year included in profit or loss for assets held at 31 December 2014	360

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

The tables below summarize the capital adequacy ratio of The Group as at 30 June 2015:

	As at 30 June 2015	As at 31 December 2014
Core Tier 1 capital	37,957,224	36,445,587
Including: Paid-up capital	11,049,819	11,049,819
Capital reserve	6,690,766	6,641,630
Surplus reserve, general and statutory reserve	9,354,569	7,814,714
Retained Earnings	10,639,005	10,868,057
Non-controlling interests	223,065	71,367
Regulatory deductions for core Tier 1 capital	(96,086)	(98,041)
Total core Tier 1 capital, net of deductions	37,861,138	36,347,546
Other Tier 1 capital	19,611	9,516
Total Tier 1 capital, net of deductions	37,880,749	36,357,062
Tier 2 capital	6,014,413	6,029,945
Including: Tier 2 capital instruments and premium	2,794,280	3,193,463
Surplus loan loss provisions	3,176,429	2,817,451
Non-controlling interests	43,704	19,031
Regulatory deductions for Tier 2 capital	-	-
Total capital, net of deductions	43,895,162	42,387,007
Credit risk-weighted assets	368,863,950	294,901,889
Market risk-weighted assets	1,262,125	806,874
Operational risk-weighted assets	20,273,287	20,288,384
Total risk-weighted assets	390,399,362	315,997,147
Capital adequacy ratio	11.24%	13.41%
Tier 1 capital adequacy ratio	9.70%	11.51%
Core Tier 1 capital adequacy ratio	9.70%	11.50%

Notes to the Condensed Consolidated Financial Statements

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements either.

	As at 30 June 2015	As at 31 December 2014
Entrusted loans	69,232,698	59,437,680
Off-balance sheet wealth management products	15,835,210	10,441,510

48 SUBSEQUENT EVENT

There were no significant subsequent events needed to disclosure for the Group.

Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 30 June 2015	As at 31 December 2014
RMB current assets to RMB current liabilities	30.16%	33.92%
Foreign currency current assets to foreign currency current liabilities	120.83%	88.67%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 30 June 2015				
Spot assets	3,336,053	121,375	541,769	3,999,197
Spot liabilities	(2,760,046)	(119,680)	(56,138)	(2,935,864)
Forward purchases	858,967	–	–	858,967
Forward sales	215,177	–	–	215,177
Net long position	1,650,151	1,695	485,631	2,137,477
As at 31 December 2014				
Spot assets	2,550,011	130,227	1,539,649	4,219,887
Spot liabilities	(2,034,389)	(132,318)	(1,486,247)	(3,652,954)
Forward purchases	911,909	1,230	–	913,139
Forward sales	289,666	(1,230)	–	288,436
Net long/(short) position	1,717,197	(2,091)	53,402	1,768,508

Appendix I – Unaudited Supplementary Financial Information

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

3 CROSS-BORDER CLAIMS

The Group regard all claims on third parties outside China mainland and foreign currency transaction in China mainland as cross-border claims.

Cross-border claims mainly include “Borrowing from central bank, Deposits with banks and other financial institutions, Deposits from banks and other financial institutions and Loans and advances to customers”.

Cross-border claims are disclosed by country or geographical area. A country or geographical area claim is reported where it constitutes 10% or more of the aggregate amount of total cross-border claims. Risk transfers where the claim is guaranteed by a party whose location is different from that of the counterparty or the claimant is an overseas branch of the bank whose Head Office is in another country.

As at 30 June 2015

Asia Pacific	3,794,286
– China mainland	3,279,528
– Hong Kong	513,481
Europe	33,223
North and South America	147,821
Subtotal	3,975,330

As at 31 December 2014

Asia Pacific excluding China mainland	3,865,587
– China mainland	2,301,424
– Hong Kong	1,560,947
Europe	88,444
North and South America	238,511
Subtotal	4,192,542

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 30 June 2015	As at 31 December 2014
Total loans and advances to customers which have been overdue for		
– within 3 months	1,969,012	1,552,086
– between 3 to 6 months	1,964,771	457,691
– between 6 to 12 months	1,083,971	815,257
– over 12 months	492,000	348,506
Total	5,509,754	3,173,540
Percentage		
– within 3 months	35.74%	48.91%
– between 3 to 6 months	35.66%	14.42%
– between 6 to 12 months	19.67%	25.69%
– over 12 months	8.93%	10.98%
Total	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Pan Yangtze River Delta	Total
As at 30 June 2015			
Overdue loans and advances to customers	5,242,696	267,058	5,509,754
– Individually assessed	(702,844)	(10,374)	(713,218)
– Collectively assessed	(784,372)	(47,265)	(831,637)
As at 31 December 2014			
Overdue loans and advances to customers	3,085,214	88,326	3,173,540
– Individually assessed	(392,494)	(22,448)	(414,942)
– Collectively assessed	(1,115,702)	(7,193)	(1,122,895)

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 30 June 2015	As at 31 December 2014
Fair value of collaterals		
– Corporate loans	1,613,354	1,367,662
– Personal loans and advances	988,707	1,575,589
Total	2,602,061	2,943,251

4.2 Identified impaired loans and advances

	Anhui Province	Pan Yangtze River Delta	Total
As at 30 June 2015			
Identified impaired loans and advances for which allowance is	2,277,223	72,605	2,349,828
– Individually assessed	(623,009)	(10,374)	(633,383)
– Collectively assessed	(362,820)	–	(362,820)
As at 31 December 2014			
Identified impaired loans and advances for which allowance is	1,753,082	73,395	1,826,477
– Individually assessed	(404,488)	(22,448)	(426,936)
– Collectively assessed	(493,955)	–	(493,955)



徽商銀行股份有限公司
Huishang Bank Corporation Limited