



盛京銀行

SHENGJING BANK

Shengjing Bank Co., Ltd.\*

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

Stock Code: 02066

2017 Interim Report





北京

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

# COMPANY INFORMATION

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<b>Legal Name in Chinese</b>	盛京銀行股份有限公司
<b>Abbreviation in Chinese</b>	盛京銀行
<b>Legal Name in English</b>	Shengjing Bank Co., Ltd.
<b>Abbreviation in English</b>	SHENGJING BANK
<b>Legal Representative</b>	ZHANG Qiyang
<b>Authorised Representatives</b>	ZHANG Qiyang and ZHOU Zhi
<b>Secretary to the Board of Directors</b>	ZHOU Zhi
<b>Joint Company Secretaries</b>	ZHOU Zhi and KWONG Yin Ping Yvonne
<b>Registered and Business Address</b>	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
<b>Contact Number</b>	86-24-22535633
<b>Website</b>	<a href="http://www.shengjingbank.com.cn">www.shengjingbank.com.cn</a>
<b>Principal Place of Business in Hong Kong</b>	Units 08–09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
<b>Website of the Hong Kong Stock Exchange on which the H Share Interim Report is Published</b>	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
<b>Place of Maintenance of the Interim Report</b>	Office of the Board of Directors of the Bank
<b>Stock Name</b>	Shengjing Bank
<b>Stock Code</b>	02066



## COMPANY INFORMATION (CONTINUED)

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<b>H Share Registrar and its Business Address</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
<b>Legal Advisor as to PRC Laws and its Business Address</b>	Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, the PRC
<b>Legal Advisor as to Hong Kong Law and its Business Address</b>	Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square Central Hong Kong
<b>Auditor and its Business Address</b>	KPMG 8th Floor Prince’s Building 10 Chater Road Hong Kong

# FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	January–June 2017	January–June 2016	Rate of Change (%)
<b>Operating Results</b>			
Interest income	18,443,387	17,413,268	5.9
Interest expense	(12,973,887)	(10,927,801)	18.7
Net interest income	5,469,500	6,485,467	(15.7)
Net fee and commission income	1,067,506	858,301	24.4
Net trading gains/(losses), net gains arising from investments, net foreign exchange gains/(losses), and other operating income	(67,567)	444,252	(115.2)
Operating income	6,469,439	7,788,020	(16.9)
Operating expenses	(1,645,935)	(1,958,022)	(15.9)
Impairment losses on assets	(603,837)	(1,137,444)	(46.9)
Profit before taxation	4,219,667	4,692,554	(10.1)
Income tax expense	(715,471)	(1,070,849)	(33.2)
Net profit	3,504,196	3,621,705	(3.2)
Net profit attributable to equity shareholders of the Bank	<u>3,506,738</u>	<u>3,616,388</u>	<u>(3.0)</u>
<b>Calculated on a per share basis (RMB)</b>			<b>Change</b>
Basic and diluted earnings per share	<u>0.60</u>	<u>0.62</u>	<u>(0.02)</u>

## FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017	As at 31 December 2016	Rate of Change (%)
<b>Major indicators of assets/liabilities</b>			
Total assets	938,711,110	905,482,647	3.7
Of which: net loans and advances to customers	270,708,609	228,880,732	18.3
Total liabilities	890,283,730	859,108,021	3.6
Of which: deposits from customers	443,457,433	415,246,159	6.8
Share capital	5,796,680	5,796,680	–
Equity attributable to equity shareholders of the Bank	47,849,725	45,794,429	4.5
Total equity	<u>48,427,380</u>	<u>46,374,626</u>	<u>4.4</u>
<b>Profitability Indicators (%)</b>			
Return on average total assets <sup>(1)</sup>	0.76	0.96	(0.20)
Return on average equity <sup>(2)</sup>	14.79	17.02	(2.23)
Net interest spread <sup>(3)</sup>	1.42	1.85	(0.43)
Net interest margin <sup>(4)</sup>	1.53	1.97	(0.44)
Net fee and commission income to operating income	16.50	11.02	5.48
Cost-to-income ratio <sup>(5)</sup>	<u>24.00</u>	<u>18.53</u>	<u>5.47</u>

## FINANCIAL HIGHLIGHTS (CONTINUED)

	As at 30 June 2017	As at 31 December 2016	Change
<b>Asset quality indicators (%)</b>			
Non-performing loan ratio <sup>(6)</sup>	1.53	1.74	(0.21)
Allowance to non-performing loans <sup>(7)</sup>	166.73	159.17	7.56
Allowance to total loans <sup>(8)</sup>	<u>2.54</u>	<u>2.78</u>	<u>(0.24)</u>

(Expressed in thousands of Renminbi, unless otherwise stated)	30 June 2017	31 December 2016	Change
<b>Capital adequacy ratio indicators (%)</b>			
Core Tier-one capital adequacy ratio <sup>(9)</sup>	9.21	9.10	0.11
Tier-one capital adequacy ratio <sup>(9)</sup>	9.21	9.10	0.11
Capital adequacy ratio <sup>(9)</sup>	12.10	11.99	0.11
Total equity to total assets ratio	<u>5.16</u>	<u>5.12</u>	<u>0.04</u>
<b>Other indicators (%)</b>			Change
Loan-to-deposit ratio <sup>(10)</sup>	<u>62.64</u>	<u>56.69</u>	<u>5.95</u>

## FINANCIAL HIGHLIGHTS (CONTINUED)

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- (1) Calculated by dividing the net profit by the average of total assets at the beginning and at the end of the period.
- (2) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (3) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (4) Calculated by dividing net interest income by the average interest-earning assets.
- (5) Calculated by dividing operating expenses (less business tax and surcharges) by operating income.
- (6) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (7) Calculated by dividing the balance of provision for impairment on loans by the balance of non-performing loans.
- (8) Calculated by dividing the balance of the provision for impairment on loans by the total balance of loans and advances to customers.
- (9) Core Tier-one capital adequacy ratio, Tier-one capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the CBRC (effective from 1 January 2013).
- (10) The loan-to-deposit ratio is calculated by dividing the total balance of loans and advances to customers by total deposits from customers.

# MANAGEMENT DISCUSSION AND ANALYSIS

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## 3.1 BUSINESS REVIEW

In the first half of 2017, facing a number of new changes and challenges, including a continuous economic slowdown, deepening of the supply-side reform, enhanced overall financial regulation, and increasingly intensified market competition, the Bank adjusted its operating strategies and management approaches, actively optimised the operational deployment and business structure, continued to consolidate its advantages in traditional business, orderly advanced its operational innovation and business transformation, and actively prevented and solved operation risks. By doing so, the Bank has maintained steady and sound development.

As at 30 June 2017, the Bank had total assets of RMB938.711 billion, representing an increase of 3.7% as compared to the beginning of the year; net loans and advances to customers amounted to RMB270.709 billion, representing an increase of 18.3% as compared to the beginning of the year; balance of deposit amounted to RMB443.457 billion, representing an increase of 6.8% as compared to the beginning of the year; and non-performing loan ratio was 1.53%, with net profit of RMB3.504 billion.

In line with the development of the real economy and the supply-side reform, the Bank continued to promote the differentiated customer marketing and retention, deepened the structural the Bank adjustments of credit assets, and optimised the transformation of the investment and financing businesses. Therefore, the Bank further enhanced the quality of serving the transformation of the real economy. In addition, the Bank sped up the building of customer base, product portfolio and channels of the retail business, strengthened the product innovation and service improvement, and boosted the diversified development of retail business. Meanwhile, we enhanced the mechanism of risk management and internal audit, insisted on implementing differentiated risk management strategies, promoted the establishment of a full process compliance mechanism, and realised standardized operation and stable development.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2 FINANCIAL REVIEW

#### 3.2.1 Analysis of the Income Statement

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of change (%)
Interest income	18,443,387	17,413,268	1,030,119	5.9
Interest expense	(12,973,887)	(10,927,801)	(2,046,086)	18.7
<b>Net interest income</b>	<u>5,469,500</u>	<u>6,485,467</u>	<u>(1,015,967)</u>	<u>(15.7)</u>
Net fee and commission income	1,067,506	858,301	209,205	24.4
Net trading (losses)/gains	(685,600)	17,542	(703,142)	(4,008.3)
Net gains arising from investments	41,487	424,544	(383,057)	(90.2)
Net foreign exchange gains/(losses)	568,972	(25,440)	594,412	N/A
Other operating income	7,574	27,606	(20,032)	(72.6)
Operating income	6,469,439	7,788,020	(1,318,581)	(16.9)
Operating expenses	(1,645,935)	(1,958,022)	312,087	(15.9)
Impairment losses on assets	(603,837)	(1,137,444)	533,607	(46.9)
<b>Profit before taxation</b>	<u>4,219,667</u>	<u>4,692,554</u>	<u>(472,887)</u>	<u>(10.1)</u>
Income tax expense	(715,471)	(1,070,849)	355,378	(33.2)
<b>Net profit</b>	<u>3,504,196</u>	<u>3,621,705</u>	<u>(117,509)</u>	<u>(3.2)</u>

In the first half of 2017, the Bank's net interest income decreased by RMB1.016 billion or 15.7% compared to that in the same period of last year; profit before tax was RMB4.220 billion, representing a year-on-year decrease of 10.1%; and net profit was RMB3.504 billion, representing a year-on-year decrease of 3.2%.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.1.1 Net interest income

Net interest income constituted the largest component of the operating income of the Bank, accounting for 84.5% and 83.3% of the operating income of the first half of 2017 and the first half of 2016, respectively. The following table sets forth the interest income, interest expense and net interest income of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of Change (%)
Interest income	18,443,387	17,413,268	1,030,119	5.9
Interest expense	(12,973,887)	(10,927,801)	(2,046,086)	18.7
<b>Net interest income</b>	<b>5,469,500</b>	<b>6,485,467</b>	<b>(1,015,967)</b>	<b>(15.7)</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities for the first half of 2017 and the first half of 2016 are the average balances derived from the Bank's management accounts which have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June 2017			For the period ended 30 June 2016		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	197,602,719	7,119,989	7.21	195,833,950	6,557,397	6.70
Financial investments	370,009,770	9,377,835	5.07	327,704,981	8,781,235	5.36
Deposits with central bank	60,900,281	435,722	1.43	57,155,323	419,384	1.47
Deposits with banks and other financial institutions	65,615,915	1,185,581	3.61	62,994,507	1,413,307	4.49
Financial assets held under resale agreements	10,490,949	133,165	2.54	8,213,478	149,749	3.65
Placements with banks and other financial institutions	6,859,165	106,249	3.10	2,659,562	12,985	0.98
Financial assets at fair value through profit or loss for the period	5,700,375	84,846	2.98	5,071,932	79,211	3.12
<b>Total interest-earning assets</b>	<b>717,179,174</b>	<b>18,443,387</b>	<b>5.14</b>	<b>659,633,733</b>	<b>17,413,268</b>	<b>5.28</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June 2017			For the period ended 30 June 2016		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
<b>Interest-bearing liabilities</b>						
Borrowings from central bank	94,650,552	1,390,720	2.94	40,189,835	596,259	2.97
Deposits from customers	405,329,360	7,547,691	3.72	419,394,372	6,689,935	3.19
Deposits from banks and other financial institutions	54,011,359	1,358,501	5.03	84,018,826	2,084,014	4.96
Financial assets sold under repurchase agreements	34,045,229	465,268	2.73	12,690,267	160,509	2.53
Placements from banks and other financial institutions	32,503,061	324,851	2.00	9,395,207	74,607	1.59
Debt securities issued	76,795,662	1,886,856	4.91	70,788,506	1,322,477	3.74
<b>Total interest-bearing liabilities</b>	<b>697,335,223</b>	<b>12,973,887</b>	<b>3.72</b>	<b>636,477,013</b>	<b>10,927,801</b>	<b>3.43</b>
Net interest income		5,469,500			6,485,467	
Net interest margin <sup>(1)</sup>			1.42			1.85
<b>Net interest yield<sup>(2)</sup></b>			<b>1.53</b>			<b>1.97</b>

*Notes:*

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June 2017 vs. 2016		
	Increase/ (decrease) Volume <sup>(1)</sup>	Due to Rate <sup>(2)</sup>	Net increase/ (decrease) <sup>(3)</sup>
<b>Interest-earning assets</b>			
Loans and advances to customers	59,254	503,338	562,592
Financial investments	1,133,768	(537,168)	596,600
Deposits with central bank	27,525	(11,187)	16,338
Deposits with banks and other financial institutions	58,851	(286,577)	(227,726)
Financial assets held under resale agreements	41,564	(58,148)	(16,584)
Placements with banks and other financial institutions	20,578	72,686	93,264
Financial assets at fair value through profit or loss for the period	9,804	(4,169)	5,635
<b>Changes in interest income</b>	<b>1,351,344</b>	<b>(321,225)</b>	<b>1,030,119</b>
<b>Interest-bearing liabilities</b>			
Borrowings from central bank	808,742	(14,281)	794,461
Deposits from customers	(224,337)	1,082,093	857,756
Deposits from banks and other financial institutions	(744,185)	18,672	(725,513)
Financial assets sold under repurchase agreements	270,140	34,619	304,759
Placements from banks and other financial institutions	183,707	66,537	250,244
Debt securities issued	112,334	452,045	564,379
<b>Changes in interest income expense</b>	<b>406,401</b>	<b>1,639,685</b>	<b>2,046,086</b>
<b>Changes in net interest income</b>	<b>944,943</b>	<b>(1,960,910)</b>	<b>(1,015,967)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.
- (2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.
- (3) Represents interest income or expense for the period minus interest income or expense for the previous period.

### 3.2.1.2 Interest Income

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017		2016	
	Amount	% of total	Amount	% of total
Loans and advances to customers				
Corporate loans (including discounted bills)	6,906,842	37.4	6,382,785	36.7
Personal loans	213,147	1.2	174,612	1.0
Sub-total	7,119,989	38.6	6,557,397	37.7
Financial investments	9,377,835	50.8	8,781,235	50.4
Deposits with central bank	435,722	2.4	419,384	2.4
Deposits with banks and other financial institutions	1,185,581	6.4	1,413,307	8.1
Financial assets held under resale agreements	133,165	0.7	149,749	0.9
Placements with banks and other financial institutions	106,249	0.6	12,985	0.1
Financial assets at fair value through profit or loss for the period	84,846	0.5	79,211	0.4
<b>Total</b>	<b>18,443,387</b>	<b>100.0</b>	<b>17,413,268</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank's interest income increased by 5.9% from RMB17.413 billion for the first half of 2016 to RMB18.443 billion for the first half of 2017, primarily due to (i) an increase in the average balance of loans and advances to customers and in yields and (ii) an increase in the average balance of financial investments.

### 1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers was the important component of the Bank's interest income, accounting for 38.6% and 37.7% of the interest income for the first half of 2017 and the first half of 2016, respectively. The following table sets forth the average balances of the loans and advances to customers and the average yields of related interest income and loans and advances to customers for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June					
	2017			2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans (including discounted bills)	188,078,042	6,906,842	7.34	188,466,317	6,382,785	6.77
Personal loans	9,524,677	213,147	4.48	7,367,633	174,612	4.74
<b>Total</b>	<b>197,602,719</b>	<b>7,119,989</b>	<b>7.21</b>	<b>195,833,950</b>	<b>6,557,397</b>	<b>6.70</b>

### 2. Interest Income from Financial Investments

Interest income from financial investments increased by 6.8% from RMB8.781 billion for the first half of 2016 to RMB9.378 billion for the first half of 2017, mainly due to the increase in the average balance of financial investments.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 3. *Interest Income from Deposits with Central Bank*

Interest income from deposits with central bank increased by 3.9% from RMB419 million for the first half of 2016 to RMB436 million for the first half of 2017, mainly due to the increase in the average balance of deposits with central bank.

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

Interest income from deposits with banks and other financial institutions decreased by 16.1% from RMB1.413 billion for the first half of 2016 to RMB1.186 billion for the first half of 2017, mainly due to the decrease in the amount of average yield of the deposits with banks and other financial institutions compared to that in the same period of last year.

### 5. *Interest Income from Financial Assets Held under Resale Agreements*

Interest income from financial assets held under resale agreements decreased by 11.1% from RMB150 million for the first half of 2016 to RMB133 million for the first half of 2017, mainly due to the decrease of return rate on financial assets held under resale agreements in 2017 compared to that in the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.1.3 Interest expense

The following table sets forth the principal components of the interest expense of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017		2016	
	Amount	% of total	Amount	% of total
Borrowings from central bank	1,390,720	10.7	596,259	5.5
Deposits from customers	7,547,691	58.2	6,689,935	61.2
Deposits from banks and other financial institutions	1,358,501	10.5	2,084,014	19.1
Financial assets sold under repurchase agreements	465,268	3.6	160,509	1.4
Placements from banks and other financial institutions	324,851	2.5	74,607	0.7
Debt securities issued	1,886,856	14.5	1,322,477	12.1
<b>Total</b>	<b>12,973,887</b>	<b>100.0</b>	<b>10,927,801</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Interest Expense on Deposits from Customers

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June 2017			For the period ended 30 June 2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
<b>Corporate deposits</b>						
Demand	73,833,460	291,631	0.79	76,794,835	354,226	0.92
Time	229,602,014	5,130,501	4.47	226,700,331	4,409,972	3.89
Sub-total	303,435,474	5,422,132	3.57	303,495,166	4,764,198	3.14
<b>Personal deposits</b>						
Demand	14,127,784	28,330	0.40	12,787,687	27,001	0.42
Time	87,766,102	2,097,229	4.78	103,111,519	1,898,736	3.68
Sub-total	101,893,886	2,125,559	4.17	115,899,206	1,925,737	3.32
<b>Total deposits from customers</b>	<b>405,329,360</b>	<b>7,547,691</b>	<b>3.72</b>	<b>419,394,372</b>	<b>6,689,935</b>	<b>3.19</b>

Interest expense on deposits from customers increased by 12.8% from RMB6.690 billion for the first half of 2016 to RMB7.548 billion for the first half of 2017, primarily due to the increase in the average interest rate in the deposit business of the Bank.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Interest expense on deposits from banks and other financial institutions decreased by 34.8% from RMB2.084 billion for the first half of 2016 to RMB1.359 billion for the first half of 2017, primarily due to the decrease in the average balance of the deposits with banks and other financial institutions of the Bank.

### *3. Interest Expense on Financial Assets Sold under Repurchase Agreements*

Interest expense on financial assets sold under repurchase agreements increased by 189.9% from RMB161 million for the first half of 2016 to RMB465 million for the first half of 2017, primarily due to the increase in the average balance of financial assets sold under repurchase agreements and the interest rate.

### *4. Interest Expense on Placements from Banks and Other Financial Institutions*

Interest expense on placements from banks and other financial institutions increased by 335.4% from RMB75 million for the first half of 2016 to RMB325 million for the first half of 2017, mainly due to the combined impact brought by the increase in the average balance of placements from banks and other financial institutions and in the interest rate.

### *5. Interest Expense on Debt Securities Issued*

In the first half of 2017, the interest expense of the debt in issue amounted to RMB1.887 billion, representing an increase of 42.7% compared to RMB1.322 billion in the same period of last year, mainly due to an increase in the issuance of interbank certificate of deposit.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **3.2.1.4 Net interest spread and net interest margin**

Net interest spread is the difference between the average yield on the average balance of our total interest-earning assets and the average cost of the average balance of the Bank's total interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Net interest spread of the Bank decreased by 0.43 percentage points from 1.85% for the first half of 2016 to 1.42% of the first half of 2017, and the net interest margin of the Bank decreased by 0.44 percentage point from 1.97% for the first half of 2016 to 1.53% for the first half of 2017, primarily due to the decrease of the average yield on assets and the increase of the average interest rate of interest-bearing liabilities, and detailed reasons are: (i) the rate of return on deposits with central bank, deposits with banks and other financial institutions, financial investment and financial assets held under resale agreements decreased compared to that in the same period of last year. (ii) the interest rate of placements from banks and other financial institutions, deposits from customers, financial assets sold under repurchase agreements and debt securities issued were all increased compared to that in the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.1.5 Non-interest Income

#### 1. Net Fee and Commission Income

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of Change (%)
Fee and commission income				
Agency and custody services fees	1,095,050	857,936	237,114	27.6
Settlement and clearing services fees	68,291	88,233	(19,942)	(22.6)
Bank card services fees	15,278	18,307	(3,029)	(16.5)
Fee and commission expense	(111,113)	(106,175)	(4,938)	4.7
<b>Net fee and commission income</b>	<b>1,067,506</b>	<b>858,301</b>	<b>209,205</b>	<b>24.4</b>

The Bank's net fee and commission income increased by 24.4% from RMB858 million of the first half of 2016 to RMB1.068 billion for the first half of 2017, mainly due to an increase in fees from agency and custodian business.

Fee and commission expense primarily include fees paid to third parties for the provision of intermediary services that can be directly classified as expenses related to the provision of such services. Fee and commission expense of the Bank increased by 4.7% from RMB106 million for the first half of 2016 to RMB111 million for the first half of 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Net Trading (Losses)/Gains

For the first half of 2017, the losses from the financial assets at fair value through profit or loss for the period and derivative financial instruments amounted to RMB686 million, mainly due to the losses from the change in fair value arising from derivative financial instruments held by the bank incurred at the end of the period.

### 3. Net Gains Arising from Financial Investments

For the first half of 2017, the gains from disposal of available-for-sale debt securities investments amounted to RMB18 million, representing a decrease by 95.7% of approximately RMB406 million compared to the same period of 2016, mainly due to the fact that the premium room shrank as the rate of return in the bond market increased in the first half of 2017, which led to a decline in return rate as compared with the same period of last year.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of change (%)
Net gains on disposal of available-for-sale financial assets	18,376	424,544	(406,168)	(95.7)
Dividends from available-for-sale equity investments	23,111	–	23,111	N/A
<b>Total</b>	<b>41,487</b>	<b>424,544</b>	<b>(383,057)</b>	<b>(90.2)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.1.6 Operating expenses

For the first half of 2017, the operating expenses of the Bank amounted to RMB1.646 billion, representing a decrease of RMB312 million or 15.9% compared to that in the same period of last year.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of Change (%)
Staff costs	1,002,450	923,182	79,268	8.6
Tax and surcharges	93,408	515,014	(421,606)	(81.9)
Depreciation and amortisation	181,153	161,933	19,220	11.9
Rental and property management expenses	116,489	90,530	25,959	28.7
Office expenses	106,223	133,450	(27,227)	(20.4)
Other general and administrative expenses	146,212	133,913	12,299	9.2
<b>Total operating expenses</b>	<b>1,645,935</b>	<b>1,958,022</b>	<b>(312,087)</b>	<b>(15.9)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Staff Costs

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of Change (%)
– Salaries, bonuses and allowances	731,469	660,517	70,952	10.7
– Pension and annuity	99,825	103,366	(3,541)	(3.4)
– Other social insurance	86,604	80,228	6,376	7.9
– Housing allowances	39,852	36,480	3,372	9.2
– Supplementary retirement benefits	1,181	2,550	(1,369)	(53.7)
– Others	43,519	40,041	3,478	8.7
<b>Total staff costs</b>	<b>1,002,450</b>	<b>923,182</b>	<b>79,268</b>	<b>8.6</b>

For the first half of 2017, total staff costs of the Bank amounted to RMB1.002 billion, representing an increase of RMB79 million or 8.6% compared to that in the same period of last year, primarily due to an increase in the number of employees of the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 2. *Tax and Surcharges*

The tax and surcharges decreased by 81.9% from RMB515 million for the first half of 2016 to RMB93 million for the first half of 2017, mainly due to replacement of business tax with value-added taxes for the banking industry from 1 May 2016.

### 3. *Office Expenses, Rental and Property Management Expenses*

Office expenses, rental and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. Office expenses, rental and property management expenses for the first half of 2017 and the first half of 2016 were RMB223 million and RMB224 million, respectively.

### 4. *Depreciation and Amortisation*

Depreciation and amortisation increased by 11.9% from RMB162 million of the first half of 2016 to RMB181 million for the first half of 2017. The increase in depreciation and amortisation was primarily due to the increase in the depreciation of fixed assets driven by the increase in the number of properties and equipment and the increase in long-term prepaid expenses of the Bank, in particular, the renovation costs of leased properties and the expenses for opening business outlets.

### 5. *Other General and Administrative Expenses*

Other general and administrative expenses increased by 9.2% from RMB134 million for the first half of 2016 to RMB146 million for the first half of 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.1.7 Impairment losses on assets

The following table sets forth the principal components of impairment losses on assets of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June			
	2017	2016	Change in amount	Rate of Change (%)
Loans and advances to customers	583,574	859,166	(275,592)	(32.1)
Loans and receivables	26,000	260,000	(234,000)	(90.0)
Others	(5,737)	18,278	(24,015)	(131.4)
<b>Total</b>	<b>603,837</b>	<b>1,137,444</b>	<b>(533,607)</b>	<b>(46.9)</b>

### 3.2.1.8 Income tax expense

During the first half of 2017, income tax expense of the Bank amounted to RMB715 million, representing a decrease of RMB355 million or 33.2% compared with the same period of last year. The effective tax rate of the Bank was 16.96%, representing a decrease of 5.86 percentage points compared with the same period of last year, mainly due to the increase in the Bank's non-taxable income from the PRC government bonds for the current period.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.2 Analysis of the Statement of Financial Position

#### 3.2.2.1 Assets

Total assets of the Bank as at 30 June 2017 and 31 December 2016 were RMB938.711 billion and RMB905.483 billion, respectively. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with central bank, which accounted for 28.8%, 52.6%, 7.2% and 8.1%, respectively, of total assets of the Bank as at 30 June 2017. The following table sets forth the balances of principal components of total assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Gross loans and advances to customers	277,776,943	29.6	235,416,650	26.0
Provision for impairment losses	(7,068,334)	(0.8)	(6,535,918)	(0.7)
Net loans and advances to customers	270,708,609	28.8	228,880,732	25.3
Financial investments <sup>(1)</sup>	493,627,849	52.6	463,365,698	51.2
Deposits with banks and other financial institutions	67,757,823	7.2	90,789,790	10.0
Cash and deposits with central bank	76,310,317	8.1	71,375,747	7.9
Financial assets held under resale agreements	4,020,050	0.4	16,039,394	1.8
Placements with banks and other financial institutions	12,068,880	1.3	21,138,110	2.3
Derivative financial assets	132,098	0.0	276,546	0.0
Other assets <sup>(2)</sup>	14,085,484	1.6	13,616,630	1.5
<b>Total assets</b>	<b>938,711,110</b>	<b>100.0</b>	<b>905,482,647</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) Includes held-to-maturity investments, receivables and available-for-sale financial assets, but excludes financial assets at fair value through profit or loss for the period.
- (2) Includes interest receivables, property and equipment, other receivables, deferred income tax assets and other assets.

Total assets of the Bank increased by 3.7% from RMB905.483 billion as of 31 December 2016 to RMB938.711 billion as of 30 June 2017. The growth in total assets of the Bank was largely the result of the vigorous development of business of financial investments and loans and advances to customers.

### 1. Loans and Advances to Customers

Loans and advances to customers were the essential component of the assets of the Bank. The total loans and advances to customers made by the Bank as of 30 June 2017 amounted to RMB277.777 billion with an increase of 18.0% compared with the end of the previous year. The gross loans and advances to customers accounted for 29.6% of the total assets with an increase of 3.6 percentage points compared with the end of the previous year.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Corporate loans				
– Corporate loans	259,447,618	93.5	223,598,360	95.0
– Discounted bills	7,314,139	2.6	3,657,876	1.6
Personal loans				
– Residential mortgage	5,662,910	2.0	4,519,168	1.9
– Personal consumption loans	4,089,385	1.5	2,502,220	1.1
– Credit cards	529,321	0.2	523,837	0.2
– Personal business loans	654,100	0.2	534,159	0.2
– Others	79,470	0.0	81,030	0.0
<b>Total loans and advances to customers</b>	<b>277,776,943</b>	<b>100.00</b>	<b>235,416,650</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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The loans and advances to customers made by the Bank consisted mainly of corporate loans (including discounted bills) and personal loans. Corporate loans constituted the largest component of the Bank's loan portfolio. The corporate loans of the Bank increased by 17.4% from RMB227.256 billion as at 31 December 2016 to RMB266.762 billion as of 30 June 2017, and accounted for 96.1% and 96.6% of the total loans and advances to customers made by the Bank, respectively, mainly attributable to the fact that, (i) the Bank continues to increase loans granted to enterprises in key industries, including wholesale and retail, manufacturing industries, and renting and business activities; (ii) the Bank continues to enhance business cooperation with core high-quality clients from various industries, leading to the continuous increase in balance of relevant loans.

Personal loans offered by the Bank mainly include residential mortgage, personal consumption loans, credit cards, personal business loans and other personal loans. The balance of personal loans amounted to RMB11.015 billion with an increase of RMB2.855 billion or 35.0% compared with the end of last year, representing 3.9% of total loans and advances to customers. Among personal loans, residential mortgage increased by RMB1.144 billion or 25.3% compared to that at the end of last year, which was mainly driven by the market demand for the personal residential mortgages; personal consumption loans increased by RMB1.587 billion or 63.4% compared to that at the end of last year. The Bank increased its efforts in promoting personal consumption loans as both income and spending of residents increased as a result of the national economic development. Besides, by increasing the number of distribution outlets, the number of customers was increased, which resulted in the growth of personal consumption loans.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Loans by collateral

As of 30 June 2017 and 31 December 2016, loans secured by mortgages, pledges or guarantees, in aggregate, represented 93.4% and 91.2% of the total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such a loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Loans secured by mortgages	105,491,619	38.0	101,776,176	43.2
Loans secured by pledges	34,740,341	12.5	19,358,290	8.2
Guaranteed loans	119,226,256	42.9	93,531,633	39.8
Unsecured loans	18,318,727	6.6	20,750,551	8.8
<b>Total loans and advances to customers</b>	<b>277,776,943</b>	<b>100.0</b>	<b>235,416,650</b>	<b>100.0</b>

The structure of collaterals of the Bank's issued loans and advances was stable and the Bank's capability of mitigating risks was relatively solid. As of 30 June 2017, the balance of loans secured by mortgages, pledges and guaranteed loans amounted to RMB259.458 billion, with an increase of RMB44.792 billion or 20.9% compared to that at the end of last year, representing 93.4% of total loans and advances to customers which increased as compared with that at the end of the previous year; the balance of unsecured loans was RMB18.319 billion, with a decrease of RMB2.432 billion from the end of last year, accounting for 6.6% of total loans and advances to customers which decreased as compared with that at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

	As at 30 June 2017				As at 31 December 2016			
	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total
Balance as at the beginning of the period	4,379,900	102,589	2,053,429	6,535,918	3,612,734	29,142	286,754	3,928,630
Charge for the period	1,447,633	39,419	127,068	1,614,120	1,418,847	86,892	2,000,914	3,506,653
Release for the period	(465,616)	(41,501)	(523,429)	(1,030,546)	(651,681)	(13,186)	(97,412)	(762,279)
Unwinding of discount	–	–	(52,124)	(52,124)	–	–	(43,380)	(43,380)
Write-offs for the period	–	–	–	–	–	(281)	(97,297)	(97,578)
Recoveries for the period	–	23	943	966	–	22	3,850	3,872
<b>Balance as at the end of the period</b>	<b>5,361,917</b>	<b>100,530</b>	<b>1,605,887</b>	<b>7,068,334</b>	<b>4,379,900</b>	<b>102,589</b>	<b>2,053,429</b>	<b>6,535,918</b>

Provision for impairments on loans and advances to customers increased by 8.1% from RMB6.536 billion as of 31 December 2016 to RMB7.068 billion as of 30 June 2017, mainly because of the continuous increase in granting loans and advances by the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Financial Investments

As of 30 June 2017 and 31 December 2016, the respective financial investments (including loans and receivables, available-for-sale financial assets and held-to-maturity investments, but excluding financial assets at fair value through profit or loss for the period) of the Bank amounted to RMB493.628 billion and RMB463.366 billion, representing 52.6% and 51.2% of the total assets of the Bank, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
<b>Available-for-sale investments</b>	80,285,155	16.3	46,328,907	10.0
– Bonds issued by policy banks	16,987,952	3.5	13,740,574	3.0
– Government bonds	19,983,175	4.0	25,235,064	5.4
– Bonds issued by other banks and financial institutions	33,095,194	6.7	404,796	0.1
– Corporate bonds	9,834,809	2.0	6,564,448	1.4
– Equity investments	384,025	0.1	384,025	0.1
<b>Held-to-maturity investments</b>	179,058,886	36.3	171,504,761	37.0
– Bonds issued by policy banks	76,873,187	15.6	65,800,264	14.2
– Government bonds	83,395,876	16.9	75,012,016	16.2
– Bonds issued by other banks and financial institutions	17,894,850	3.6	29,766,124	6.4
– Corporate bonds	894,973	0.2	926,357	0.2

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
<b>Investments classified as loans and receivables</b>	234,283,808	47.4	245,532,030	53.0
– Asset management scheme	155,224,599	31.4	156,798,192	33.9
– Investment in trust beneficiary rights	75,164,209	15.2	69,940,838	15.1
– Wealth management products issued by financial institutions	5,200,000	1.1	20,072,000	4.3
Less: provisions for loans and receivables	(1,305,000)	(0.3)	(1,279,000)	(0.3)
<b>Total</b>	<b>493,627,849</b>	<b>100.0</b>	<b>463,365,698</b>	<b>100.0</b>

The total financial investments of the Bank increased by 6.5% from RMB463.366 billion as of 31 December 2016 to RMB493.628 billion as of 30 June 2017. Available-for-sale investments and held-to-maturity investments increased by RMB33.956 billion and RMB7.554 billion, respectively, compared to those as recorded at the end of the previous year. This was mainly due to an increase in the liquidity reserves of the Bank caused by the increase in the Bank's holding of government bonds and bonds issued by policy banks which are of high liquidity and low risks.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2.1. Changes in the provision for investments classified as loans and receivables

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017	As at 31 December 2016
Balance at the beginning of the period	(1,279,000)	(633,000)
Provision for the period	<u>(26,000)</u>	<u>(646,000)</u>
<b>Balance as at the end of the period</b>	<b><u>(1,305,000)</u></b>	<b><u>(1,279,000)</u></b>

#### 3.2.2.2 Liabilities

As of 30 June 2017 and 31 December 2016, the total liabilities of the Bank were RMB890.284 billion and RMB859.108 billion, respectively. The Bank's liabilities mainly consisted of (i) deposits from customers; (ii) deposits from banks and other financial institutions; and (iii) debt securities issued, accounting for 49.8%, 15.5% and 15.1%, respectively, with respect to the Bank's total liabilities as of 30 June 2017.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Borrowings from central bank	70,500,000	7.9	118,800,000	13.8
Deposits from customers	443,457,433	49.8	415,246,159	48.3
Deposits from banks and other financial institutions	138,220,895	15.5	143,378,530	16.7
Derivative financial liabilities	541,801	0.1	14,206	0.0
Financial assets sold under repurchase agreements	47,213,674	5.3	40,285,591	4.7
Debt securities issued	134,286,716	15.1	87,289,181	10.2
Placements from banks and other financial institutions	31,098,801	3.5	38,940,901	4.5
Other liabilities <sup>(1)</sup>	24,964,410	2.8	15,153,453	1.8
<b>Total</b>	<b>890,283,730</b>	<b>100.0</b>	<b>859,108,021</b>	<b>100.0</b>

Note:

- (1) Including interest payable, amounts in settlement accounts, staff remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1. Deposits from Customers

The Bank provides demand and time deposit products to corporate and personal customers. The following table sets forth the Bank's deposits from customers and product types as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
<b>Corporate deposits</b>				
Demand deposits	83,324,924	18.8	74,575,104	17.9
Time deposits	179,187,196	40.4	165,133,167	39.8
<b>Sub-total</b>	262,512,120	59.2	239,708,271	57.7
<b>Personal deposits</b>				
Demand deposits	15,174,601	3.4	14,398,743	3.5
Time deposits	123,199,607	27.8	111,842,098	26.9
<b>Sub-total</b>	138,374,208	31.2	126,240,841	30.4
Other deposit <sup>(1)</sup>	42,571,105	9.6	49,297,047	11.9
<b>Total</b>	443,457,433	100.0	415,246,159	100.0

Note:

(1) Mainly including pledged deposits.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 30 June 2017, the Bank's total deposits from customers amounted to RMB443.457 billion, with an increase of RMB28.211 billion or 6.8% as compared with the number recorded at the end of the previous year. Total deposits from customers accounted for 49.8% with respect to the total liabilities, representing an increase of 1.5 percentage point as compared with the end of the previous year. The Bank's deposits from customers experienced an increase in time deposits, reflecting the change in customers' preference regarding deposits.

### 2. *Debt Securities Issued*

The following table sets forth the components of the Bank's debt securities issued as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017 Amount	As at 31 December 2016 Amount
Tier 2 capital bond with fixed rate maturing in May 2024	2,200,000	2,200,000
Tier 2 capital bond with fixed rate maturing in December 2025	10,000,000	10,000,000
Financial fixed rate bonds maturing in August 2019	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Interbank certificates of deposit issued	115,086,716	68,089,181
<b>Total</b>	<b>134,286,716</b>	<b>87,289,181</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2.2 billion in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem all or part of the current bonds in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds.

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

The Bank issued 2016 financial fixed rate bonds in the aggregate of RMB5 billion on 26 August 2016 with a term of maturity of 3 years and an annual coupon rate of 3.00%

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

In the first half of 2017, the Bank in total issued the interbank certificates of deposit of RMB139.950 billion with the coupon rate between 3.90% to 5.15%. The method of interest payment is to pay on a quarterly basis and in a lump sum. The amount of such interbank certificates of deposit that have matured was RMB47.75 billion. As of 30 June 2017, the balance of interbank certificates of deposit issued by the Bank was RMB115.087 billion, representing an increase of 69.0% compared to that in the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.2.3 Equity

The following table sets forth the components of the equity of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Share capital	5,796,680	12.0	5,796,680	12.5
Capital reserve	11,855,505	24.5	11,855,505	25.5
Surplus reserve	5,352,502	11.0	4,666,968	10.1
General reserve	11,033,726	22.8	9,267,100	20.0
Investment revaluation reserve	(94,311)	(0.2)	(92,044)	(0.2)
Deficit on remeasurement of net defined benefit liabilities	(5,473)	(0.0)	(5,468)	(0.0)
Retained earnings	13,911,096	28.7	14,305,688	30.8
Non-controlling interests	577,655	1.2	580,197	1.3
<b>Total equity</b>	<b>48,427,380</b>	<b>100.0</b>	<b>46,374,626</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.3 Loan quality analysis

#### 3.2.3.1 Breakdown of loans by the five-category classification system

The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated. The non-performing loans of the Bank are classified into loans and advances to customers that are substandard, doubtful and loss. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Normal	268,220,369	96.6	225,793,939	95.9
Special mention	5,317,141	1.9	5,516,390	2.3
Substandard	3,994,715	1.4	3,915,006	1.7
Doubtful	214,096	0.1	171,128	0.1
Loss	30,622	0.0	20,187	0.0
<b>Total loans and advance to customers</b>	<b>277,776,943</b>	<b>100.00</b>	<b>235,416,650</b>	<b>100.0</b>
<b>Non-performing loan</b>	<b>4,239,433</b>	<b>1.53</b>	<b>4,106,321</b>	<b>1.74</b>

The non-performing loan ratio of the Bank's total loan portfolio was 1.53 % and 1.74%, respectively. The Bank's non-performing loan rate decreased due to the enlargement of the scale of loans and advances to customers by the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.3.2 Concentration of loans

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

Corporate loans consist of loans to customers in a broad range of industries. The following table sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017				As at 31 December 2016			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail	90,288,704	32.6	615,168	0.68	73,940,527	31.4	497,053	0.67
Renting and business activities	48,548,077	17.6	-	-	34,912,668	14.8	-	-
Manufacturing	40,963,318	14.7	2,825,430	6.90	36,474,375	15.5	2,827,607	7.75
Real estate	27,828,945	10.0	309,062	1.11	30,306,590	12.9	309,062	1.02
Personal loans	11,015,186	3.9	100,888	0.92	8,160,414	3.4	108,079	1.32
Others	10,884,538	3.9	8,965	0.08	10,112,792	4.3	2,300	0.02
Transportation, storage and postal services	9,810,695	3.5	2,000	0.02	9,880,743	4.2	2,000	0.02
Construction	9,183,959	3.3	296,100	3.22	7,430,303	3.2	303,900	4.09
Discounted bills	7,314,139	2.6	-	-	3,657,876	1.6	-	-
Accommodation and catering	6,549,534	2.4	28,820	0.44	5,622,820	2.4	8,820	0.16
Production and supply of electric power, heat, gas and water	4,438,243	1.6	-	-	4,315,242	1.8	-	-
Mining	2,988,900	1.1	-	-	2,183,200	0.9	-	-
Household and other service	2,707,450	1.0	-	-	3,045,395	1.3	-	-
Culture, sports and entertainment	2,538,686	0.9	10,000	0.39	2,876,880	1.2	-	-
Agriculture, forestry, animal husbandry and fishery	2,361,069	0.8	43,000	1.82	2,098,825	0.9	47,500	2.26
Public administration and social organisation	355,500	0.1	-	-	398,000	0.2	-	-
<b>Total</b>	<b>277,776,943</b>	<b>100.00</b>	<b>4,239,433</b>	<b>1.53</b>	<b>235,416,650</b>	<b>100.0</b>	<b>4,106,321</b>	<b>1.74</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As of 30 June 2017, loans provided to customers of (i) wholesale and retail, (ii) renting and business activities sectors, (iii) manufacturing and (iv) real estate represented the largest components of the Bank's corporate loans. As of 30 June 2017 and 31 December 2016, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB207.629 billion and RMB175.634 billion, respectively, accounting for 74.9% and 74.6%, respectively, with respect to the Bank's total loans and advances to customers. From the perspective of the structure of the increase, the wholesale and retail sector and the renting and business activities sector experienced the largest increment, *i.e.* by 22.1% and 39.1% respectively and in the amount of RMB16,348 billion and RMB13,635 billion respectively.

### 2. Concentration in terms of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers as at 30 June 2017. As of the same date, all such loans were classified as pass loans.

(Expressed in thousands of Renminbi, unless otherwise stated)			
Customer	As at 30 June 2017		
	Industry involved	Amount	% of total
Customer A	Renting and business activities	5,054,000	1.8
Customer B	Real estate	4,130,000	1.5
Customer C	Manufacturing	4,026,300	1.5
Customer D	Renting and business activities	4,000,000	1.4
Customer E	Wholesale and retail	4,000,000	1.4
Customer F	Wholesale and retail	3,900,000	1.4
Customer G	Real estate	3,600,000	1.3
Customer H	Water, environment and public facilities management	3,000,000	1.1
Customer I	Real estate	2,700,000	1.0
Customer J	Transportation, storage and postal services	2,500,000	0.9



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Distribution of Non-performing Loans by Product Type

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017			As at 31 December 2016		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	266,761,757	4,138,545	1.55	227,256,236	3,998,242	1.76
Short-term loans	118,715,220	3,912,295	3.30	93,534,756	3,781,992	4.04
Medium and long term loans	140,732,398	226,250	0.16	130,063,604	216,250	0.17
Discounted bills	7,314,139	-	0.00	3,657,876	-	0.00
Retail loans	11,015,186	100,888	0.92	8,160,414	108,079	1.32
Residential mortgage	5,662,910	53,581	0.95	4,519,168	52,262	1.16
Personal business loans	654,100	19,992	3.06	534,159	28,506	5.34
Personal consumption loans	4,089,385	11,500	0.28	2,502,220	11,500	0.46
Credit card overdrawn	529,321	15,715	2.97	523,837	15,711	3.00
Other	79,470	100	0.13	81,030	100	0.12
<b>Total</b>	<b>277,776,943</b>	<b>4,239,433</b>	<b>1.53</b>	<b>235,416,650</b>	<b>4,106,321</b>	<b>1.74</b>

The non-performing loan ratio, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 1.53% as of 30 June 2017 and 1.74% as of 31 December 2016.

As of 30 June 2017 and 31 December 2016, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.55% and 1.76%, respectively.

As of 30 June 2017 and 31 December 2016, the non-performing loan ratio of the Bank's personal loan was 0.92% and 1.32%, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4. Overdue Loans and Advances to Customers

The following table sets forth the aging analysis of the Bank's overdue loans and advances to customers as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Overdue within 3 months (inclusive)	1,271,782	24.0	2,261,976	36.7
Overdue more than 3 months to 1 year (inclusive)	469,080	8.9	3,333,890	54.1
Overdue more than 1 year and within 3 years (inclusive)	3,393,068	64.1	493,718	8.0
Overdue more than 3 years	159,975	3.0	76,751	1.2
<b>Total overdue loans and advances to customers</b>	<b>5,293,905</b>	<b>100.0</b>	<b>6,166,335</b>	<b>100.0</b>

*Note:* Overdue loans and advances to customers include credit card advances.

### 3.2.4 Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the CBRC. As at 30 June 2017, the Bank's capital adequacy ratios at all tiers met the regulatory requirements. The Bank's core Tier-one capital adequacy ratio and Tier-one capital adequacy ratio were both 9.21%, increased by 0.11 percentage point from the end of the previous year; the capital adequacy ratio was 12.10%, increased by 0.11 percentage point from the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017	As at 31 December 2016
<b>Core capital</b>		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	5,352,502	4,666,968
– General reserve	11,033,726	9,267,100
– Investment revaluation reserve	(94,311)	(92,044)
– Retained earnings	13,911,096	14,305,688
– Qualifying portions of non-controlling interests	29,509	462,462
– Others	(5,473)	(5,468)
<b>Core Tier-one Capital</b>	47,879,234	46,256,891
Core Tier-one Capital deductions	(90,155)	(91,496)
<b>Net Core Tier-one Capital</b>	47,789,079	46,165,395
Other Tier-one Capital	–	–
<b>Net Tier-one Capital</b>	47,789,079	46,165,395
Tier-two Capital		
– Qualifying portions of Tier-two capital instruments issued	12,200,000	12,200,000
– Surplus provision for loan impairment	2,828,901	2,429,598
– Core Tier-two Capital deductions	–	–
<b>Net Tier-two Capital</b>	15,028,901	14,629,598
<b>Net Capital base</b>	62,817,980	60,794,993
Total risk weighted assets	519,114,283	507,222,708
<b>Core Tier-one Capital adequacy ratio</b>	9.21	9.10
<b>Tier-one Capital adequacy ratio</b>	9.21	9.10
<b>Capital adequacy ratio</b>	12.10	11.99

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.5 Segment information

#### 3.2.5.1 Summary of regional branches

The Bank is mainly operating within China. It has 18 branches in five provinces and municipalities directly under the Central Government. It also established seven subsidiaries in Shenyang of Liaoning Province, Baoshan District of Shanghai and Ningbo of Zhejiang Province.

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating revenue				Non-current assets			
	As at 30 June							
	2017		2016		30 June 2017		31 December 2016	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Northeast China	5,506,354	85.1	6,835,500	87.8	4,743,750	92.8	4,594,028	92.4
North China	730,088	11.3	665,051	8.5	337,276	6.6	353,087	7.1
Others	232,997	3.6	287,469	3.7	30,835	0.6	24,141	0.5
<b>Total</b>	<b>6,469,439</b>	<b>100.0</b>	<b>7,788,020</b>	<b>100.0</b>	<b>5,111,861</b>	<b>100.0</b>	<b>4,971,256</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.5.2 Summary of business segments

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June			
	2017		2016	
	Amount	% of total	Amount	% of total
<b>Operating revenue</b>				
Corporate banking	4,233,612	65.4	4,915,729	63.1
Personal banking	494,666	7.6	466,110	6.0
Treasury business	1,712,674	26.5	2,399,776	30.8
Others	28,487	0.5	6,405	0.1
<b>Total</b>	<b>6,469,439</b>	<b>100.0</b>	<b>7,788,020</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2.6 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptances, issued letters of credit, issued letters of guarantee, unused credit card commitments, operating lease commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptances, issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptances are commitments made by the Bank to encash a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. The following table sets forth the Bank's credit commitments and other off-balance sheet items as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017	As at 31 December 2016
Unused credit card commitments	2,146,210	2,146,488
Guarantees, acceptances and letters of credit	152,350,840	152,442,135
Operating lease commitments	736,343	653,877
Capital commitments	813,563	1,489,017
Pledged assets	153,131,549	162,656,903
<b>Total</b>	<b>309,178,505</b>	<b>319,388,420</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.3 BUSINESS OVERVIEW

#### 3.3.1 Corporate Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June		
	2017	2016	Change rate (%)
External net interest income	1,359,864	2,565,271	(47.0)
Internal net interest income	2,090,178	1,619,928	29.0
<b>Net interest income</b>	<b>3,450,042</b>	<b>4,185,199</b>	<b>(17.6)</b>
<b>Net fee and commission income</b>	<b>782,109</b>	<b>710,084</b>	<b>10.1</b>
Other operating income	1,461	20,446	(92.9)
Impairment losses on assets	(567,837)	(860,917)	(34.0)
Operating expenses	(1,197,743)	(1,276,969)	(6.2)
– Depreciation and amortisation	(135,429)	(121,135)	11.8
– Others	(1,062,314)	(1,155,834)	(8.1)
<b>Profit before tax</b>	<b>2,468,032</b>	<b>2,777,843</b>	<b>(11.2)</b>
<b>Capital expenditure</b>	<b>240,545</b>	<b>387,498</b>	<b>(37.9)</b>
(Expressed in thousands of Renminbi, unless otherwise stated)	As at	As at	Change rate (%)
	30 June 2017	31 December 2016	
<b>Segment assets</b>	<b>313,698,003</b>	<b>271,909,537</b>	<b>15.4</b>
<b>Segment liabilities</b>	<b>355,026,741</b>	<b>294,518,492</b>	<b>20.5</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **3.3.1.1 Corporate Deposits**

The corporate deposits showed a stable growth. The Bank actively enforced the strategy of customer development, further implemented customer-oriented marketing approaches, continuously improved the deposit contribution from strategic customers, dug out potential fiscal capital, maintained a steady growth in basic customers and further expanded the scale of cash collection from customers and agency settlement. As at 30 June 2017, the balance of corporate deposits of the Bank amounted to RMB262.512 billion, which accounted for 59.2% of the balance of total deposits, and led to an increase of RMB22.804 billion or 9.5% compared to last year.

According to the information provided by the Business Management Department of the PBOC Shenyang Branch, as at 30 June 2017, the balance of Renminbi corporate deposits with the Bank in Shenyang area amounted to RMB167.94 billion, ranking first among the banks in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area represent a market share of 20%, increased by 3 percentage points from the end of last year.

### **3.3.1.2 Corporate Loans**

The Bank effectively seized the opportunities brought by the transformation in the regional economic structure and optimised the allocation of its credit resources. In line with the development of the real economy, the Bank increased credit granting to quality industries and customers. As at 30 June 2017, the balance of our corporate loans (excluding discounted bills) amounted to RMB259.448 billion, representing an increase of RMB35.849 billion or 16.0% as compared to last year.

First, the Bank increased its credit granting in the course of the implementation of the nation's major strategies, in particular, it actively responded to the key projects and customers in the region and kept enhancing the quality of serving the real economy. Second, the Bank actively supported the customers from public utilities industries. It continuously increased loan extension to customers engaging in businesses of public utilities such as the supply of gas, water, electricity, as well as to customers from the industry of modern services covering healthcare, education and culture. Third, the Bank made great effort to cater to the financing requirements for the transformation and update of manufacturing industry, as well as for the development of strategic emerging industries, modern service industry, and for their respective upstream and



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

downstream auxiliary facilities. Forth, the Bank operated in the property industry in a prudent manner, adhering to the principle of list-based management and mortgage of valid projects, and sped up the process of “reducing inventory” of properties. Fifth, the Bank maintained stable credit asset quality. In particular, it strengthened its post-loan supervision, and fully carried out measures for industry risk warning and identification in connection with “reducing capacity, reducing inventory and reducing leverage”, so as to effectively safeguard credit assets.

### 3.3.2 Retail Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June		Rate of Change (%)
	2017	2016	
External net interest expense	(1,912,411)	(1,751,126)	9.2
Internal net interest income	2,134,699	2,074,648	2.9
<b>Net interest income</b>	222,288	323,522	(31.3)
<b>Net fee and commission income</b>	271,641	141,833	91.5
Other operating income	737	755	(2.4)
Impairment losses on assets	(10,000)	(16,527)	(39.5)
Operating expenses	(335,515)	(318,495)	5.3
– Depreciation and amortization	(39,047)	(34,899)	11.9
– Others	(296,468)	(283,596)	4.5
<b>Profit before tax</b>	149,151	131,088	13.8
<b>Capital expenditure</b>	69,353	111,640	(37.9)

  

(Expressed in thousands of Renminbi, unless otherwise stated)	As at	As at	Rate of change (%)
	30 June 2016	31 December 2016	
<b>Segment assets</b>	18,058,856	15,508,795	16.4
<b>Segment liabilities</b>	144,941,590	132,016,734	9.8

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **3.3.2.1 Personal Deposits**

The Bank made great effort to carry out customer-oriented product innovation. We took a series of measures to drive the growth of personal deposits, including flexible deposit terms, interest payment methods and product portfolios, development of new intelligent saving products, and exploitation of our traditional strength such as collection and payment business and certificate of sizable deposits. To achieve this, we also adopted modern communication tools. As at 30 June 2017, the balance of our personal deposits amounted to RMB138.374 billion, representing an increase of RMB12.133 billion or 9.6% compared to the end of the previous year, of which the balance of Shenyang area amounted to RMB114.231 billion, representing 17.86% of the balance of all financial institutions in Shenyang. The increase in our deposits amounted to RMB7.829 billion, representing a share of 29.38% of the total increase of all financial institutions in Shenyang. Both our balance of and increase in deposits ranked the first in Shenyang.

### **3.3.2.2 Personal Loans**

Personal loans have grown steadily with a rapid increase in residential mortgage loans and personal consumption loans. Personal loans (including mortgage loans, personal consumption loans, credit cards, personal business loans and others) increased by RMB2.855 billion or 35.0% to RMB11.015 billion as compared to the end of the previous year, of which personal mortgage loans increased by RMB1.144 billion to RMB5.663 billion compared to the end of the previous year; personal consumption loans increased by RMB1.587 billion to RMB4.089 billion compared to the end of the previous year; and personal business loans increased by RMB120 million to RMB654 million compared to the end of the previous year.

### **3.3.2.3 Bank Cards**

The Bank continuously conducted the promotion of bank cards, which drove the rapid increase in customers base and cards issuance. As at 30 June 2017, the Bank has issued 10.8717 million debit cards in total, representing an increase of 944.8 thousands compared to the beginning of the year, with total expenditures of RMB12.787 billion.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.3.2.4 Wealth Management Business

Adhering to a prudent investment philosophy, the Bank actively expanded its investment fields, deepened the cooperation of interbank business, intensified the autonomous investment in primary market securities, and launched the first wealth management scheme and direct financing tool among the urban commercial banks in northeast China. As at 30 June 2017, the Bank offered a total of 356 tranches of wealth management products, amounting to RMB62.562 billion, with a renewed balance of RMB49.413 billion, representing a year-on-year increase of RMB9.319 billion. The Bank gained an income of RMB257 million from wealth management, representing a year-on-year increase of RMB117 million, and was awarded “the Best Urban Commercial Bank” for comprehensive abilities by the China Banking Association and “Taurus Wealth Management Product” by Xinhua News Agency.

### 3.3.3 Capital and Investment Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the period ended 30 June		Rate of change (%)
	2017	2016	
External net interest income	6,022,047	5,671,322	6.2
Internal net interest expense	(4,224,877)	(3,694,576)	14.4
<b>Net interest income</b>	<b>1,797,170</b>	<b>1,976,746</b>	<b>(9.1)</b>
<b>Net fee and commission income</b>	<b>13,756</b>	<b>6,384</b>	<b>115.5</b>
Net trading (losses)/ gains	(685,600)	17,542	(4,008.3)
Net gains arising from investments	18,376	424,544	(95.7)
Net foreign exchange gains/(losses)	568,972	(25,440)	N/A
Other operating income	–	–	–
Impairment losses on assets	(26,000)	(260,000)	(90.0)
Operating expenses	(111,826)	(361,119)	(69.0)
– Depreciation and amortisation	(6,677)	(5,899)	13.2
– Others	(105,149)	(355,220)	(70.4)
<b>Profit before tax</b>	<b>1,574,848</b>	<b>1,778,657</b>	<b>(11.5)</b>
<b>Capital expenditure</b>	<b>11,860</b>	<b>18,871</b>	<b>(37.2)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017	As at 31 December 2016	Rate of change (%)
<b>Segment assets</b>	604,969,296	616,269,165	(1.8)
<b>Segment liabilities</b>	388,775,016	432,257,727	(10.1)

### 3.3.3.1 Treasury Business

In the first half of 2017, confronted with more stringent control policies, the Bank insisted on its general principle of developing standardised business and mission of serving the real economy, and strengthened its channel expansion and customer marketing. By studying the changes in the macro-economy and market trend, and taking initiatives to tackle the interest rate fluctuation, the Bank timely adjusted its treasury business investment strategies and effectively minimised the unfavourable impacts caused by market risks, so that a steady growth in the Bank's treasury business was ensured.

#### 1. Money Market Transactions

The Bank acquired the qualification for derivatives transaction and precious metal transaction, which further expanded its financing channels. In the first half of the year, the Bank enhanced the financing business scale of foreign currency, and established a comprehensively diversified financing model of domestic and foreign currency. As at 30 June 2017, the balance of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements was RMB216.533 billion, representing 24.3% of total liabilities of the Bank. The balance of deposits and placements with banks and other financial institutions and financial assets held under resale agreements was RMB83.847 billion, representing 8.9% of the total assets of the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Investments in Securities and Other Financial Assets

The Bank seized the market opportunity, reasonably formulated its investment strategies, and continuously optimised investment portfolio to keep the asset structure a diversified development. Firstly, the Bank increased its investment in standard bonds, mainly in government bonds and policy financial bonds; Secondly, the Bank diversified its investment products such as public funds investment to improve the return on its asset; Thirdly, the Bank insisted on serving the real economy, and the corporate debt investment maintained a stable increase.

#### 1) Securities investment by holding purpose

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Available-for-sale financial assets	80,285,155	16.3	46,328,907	10.0
Held-to-maturity investments	179,058,886	36.3	171,504,761	37.0
Loans and receivables	234,283,808	47.4	245,532,030	53.0
Total	<u>493,627,849</u>	<u>100.0</u>	<u>463,365,698</u>	<u>100.0</u>

As at 30 June 2017, available-for-sale financial assets held by the Bank increased by RMB33.956 billion compared to the end of previous year, representing an increase of 6.3% as to the proportion to the total securities investment. Held-to-maturity investments increased by RMB7.554 billion compared to the end of previous year, representing a decrease of 0.7% as to the proportion to the total securities investment. Loans and receivables decreased by RMB11.248 billion compared to the end of the previous year, representing a decrease of 5.6% as to the proportion to the total securities investment.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2) Securities investment by term to maturity

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2017		As at 31 December 2016	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Less than three months (inclusive)	72,403,447	14.7	83,529,054	18.0
Between three months and twelve months (inclusive)	197,104,589	39.9	202,460,809	43.7
Between one and five years (inclusive)	178,004,065	36.1	140,434,816	30.3
More than five years	46,115,748	9.3	36,941,019	8.0
<b>Total</b>	<b>493,627,849</b>	<b>100.0</b>	<b>463,365,698</b>	<b>100.0</b>

As at 30 June 2017, the Bank's securities investment with a term to maturity of less than 12 months decreased by RMB16.482 billion compared to the end of the previous year, representing a decrease of 7.1% as to the proportion to the total securities investment.

### 3.3.4 International Business

In the first half of 2017, the Bank captured a series of national development strategic opportunities, including the internationalisation of Renminbi and the enterprises "going global", continuously optimised the trading and financing service systems and constantly enhanced the ability of the above services. The Bank also actively pursued business on products such as foreign-related letters of guarantee, factoring and forfeiting, thoroughly promoted the business of free trade zone and the development of cross-border Renminbi business to build an integrated cross-border financial service platform which combined domestic and foreign currency, domestic and foreign trade, offshore and onshore, domestic and abroad, online and offline. Therefore, the market competitiveness and comprehensive strength of the Bank's cross-border financial services were further enhanced.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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In the first half year, the Bank effectively prevented and controlled risks. All trading and financing indicators demonstrated a steady growth. The international settlement amount reached US\$7.623 billion, representing a year-on-year increase of 81%; trade financing amount reached RMB11.43 billion, representing a year-on-year increase of 62%. The Bank realised a net gain of RMB328 million, representing a year-on-year increase of 80%.

### 3.3.5 Distribution Channels

#### *3.3.5.1 Physical Outlets*

As at 30 June 2017, the Bank operated businesses through its head office in Shenyang, three branch-level specialised institutions and 189 branches and sub-branches covering 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning province. These 18 cities are mostly located in economically developed regions such as Northeast China, the Bohai Rim and the Yangtze River Delta Economic Zone, which enjoy advantageous policies and huge market opportunities.

#### *3.3.5.2 Self-service Banking*

The Bank's self-service banking facilities include ATMs, cash recycling systems, inquiry and payment machines and community smart terminals. In the first half of 2017, the Bank increased its investment in self-service equipment and the number of 24-hour self-service business halls to improve service efficiency, network equipment coverage and the customer experience. As at 30 June 2017, the Bank owned 2,192 self-service facilities, including 316 ATMs, 248 cash recycling systems, 108 inquiry and payment machines and 1,520 community smart terminals, providing its customers with services such as cash withdrawal, account inquiry, cash deposit, change of password and fund transfer.

### **3.3.5.3 Electronic Banking**

With the use of special promotion plan, the Bank has given full play to the advantages of various channels to promote electronic banking products, and organized marketing activities by introducing new products and new features to deepen client penetration of electronic banking. As at the end of June 2017, the Bank had 800,000 electronic banking customers, with an actual increase of 230,000 new electronic banking customers in the first half of this year.

#### **1. Online Banking**

##### **1) Corporate Online Banking**

The Bank continued to enhance its online services for corporate capital and actively improved the settlement efficiency and the service quality. As at 30 June 2017, the Bank had a total of 15,454 online banking corporate customers, representing an increase of 17% compared to the end of the previous year; for the first half of 2017 the Bank's accumulated transaction value reached RMB790.252 billion, representing an increase of 33% as compared to the same period of the previous year; and the number of transactions reached 384,500, representing an increase of 34% as compared to the same period of the previous year.

##### **2) Personal Online Banking**

In response to the differentiated needs of the individual customers, the Bank continuously improved the user experience for personal online banking and kept promoting the personal online banking business. As at 30 June 2017, the Bank had a total of 247,600 personal online banking customers, representing an increase of 34% compared to the end of the previous year; for the first half of 2017, the number of transactions reached 347,800, representing an increase of 66% compared to the same period of the previous year; and the accumulated transaction value reached RMB12.789 billion, representing an increase of 103% compared to the same period of the previous year.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 2. *Mobile Banking*

Focusing on developing mobile financial services, the Bank continued to improve the services and functions of mobile banking, and launched the mobile banking version 2.0, which develops scan code payment, pop-up password keyboard, auto-generated verification code and other innovative features to make it more convenient for users. The Bank also expanded product promotion column to increase the exposure of the Bank's products, turned the mobile banking into a platform for mobile Internet operation, customer experience and product promotion. As at 30 June 2017, the Bank had a total of 486,500 mobile banking customers, with 1,011,500 transactions and an accumulated transaction value of RMB6.01 billion in the first half of 2017.

### 3. *Television Banking*

Leveraging its first mover advantage of television banking services, the Bank promoted the popularity and marketing of its television banking in Liao-Shen area and carried out scenario demonstration in communities. By far the television banking service of the Bank has enabled over 60,000 families in Shenyang, Anshan and Tieling area to enjoy professional financial services just at home.

## 3.4 RISK MANAGEMENT

Major risks to which the Bank is exposed include credit risk, operational risk, market risk and liquidity risk. In the first half of 2017, the supply side reform was further advanced, financial regulation was fully strengthened, and the market competition became increasingly intense. Under such business conditions, and facing the increasing pressures imposed by its business development and risk prevention and control, the Bank insisted on implementing the prudent and stable strategy for risk management based on the core concept of complying with the law, consolidating management and adopting effective controls, continuously advanced facilitated improved the construction of a comprehensive risk management system, and strictly complied with the risk bottom line. Meanwhile, the Bank attached great importance to rationalise the distribution of capital, gains and risks and to effectively prevent various types of risks. Therefore, the Bank realised a healthy development of different business operation.

### 3.4.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The credit risk exposure of the Bank mainly exists in the credit business and treasury business. In the first half of 2017, in order to seriously address the severity and urgency of the risk management during economic downturn, the Bank from time to time optimised its risk management system, improved its risk management policy and pushed forward a comprehensive risk management that was applicable to all the staff and covered the entire workflow in all respects, and also increased the standard of the refined risk management practice. Further, the Bank strictly managed risks relating to new businesses and forecasted and made a judgment in advance of the macroscopic trends and market changes. By adhering to the principle of substance over form, the Bank implemented a tracking-based management, adopted stringent standards relating to the eligibility of customers and thresholds for risk control and strictly monitored the flow of funds throughout the whole process, which resulted in continuously enhancing its ability in controlling risks. The Bank also effectively managed the risks of its existing business. It strengthened the analysis, warning and effective assessment of risk evolution to prevent the the transition of process risk to ultimate risk. Starting with measures such as detection and prevention of credit risk and the implementation of the guiding opinions and requirements on risk prevention and control within the banking industry in the first half year, the Bank conducted an overall assessment on its business risks, further identified the underlying risks, and refined the implementation of its risk management measures. Through seeking for additional asset collaterals, guarantees and other measures for mitigating risks, the Bank further strengthened the quality of its existing assets and continued to improve the level of its credit risk control.

### 3.4.2 Operational Risk Management

Operational risk refers to the risk of loss that may incur due to inadequate or problematic internal procedures, personnel and information technology systems as well as certain external events, which mainly include internal and external frauds, business interruption and failure of information technology systems.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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The Bank paid close attention to the management of operational risks. In the first half of 2017, the Bank continuously improved the rules and regulations on operational risk management, gradually optimised the mechanism for operational risk management, and promoted the establishment of operation risk management system, and persistently improved the level of the refined management of operational risks. The Bank conducted on a regular basis risk detection and inspections of major areas and key process, monitored key operational risk indicators for giving early warnings and reporting purposes, and prevented the potentially significant operational risks in the key fields, resulting in further improving its capability of operational risk management. Additionally, the Bank kept increasing the awareness of the staff within the Bank towards the liability associated with risks, intensifying its efforts in organising trainings on operational risks for all the staff, and also strengthening its regulated business operation. As a result, the Bank did not experience any operational risk incident during the Reporting Period.

### **3.4.3 Market Risk Management**

Market risks refer to the risk of losses that may be suffered by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, stock price and commodity price. Such risks mainly include interest rate risk and currency risk.

The Bank paid special attention to the market risk control. Facing the complicated and changing external environment in the first half of 2017, the Bank forecasted and proactively made a judgment of the macroscopic trends and market changes, and conducted quantitative analysis on its businesses by using an array of risk management tools, such as sensitivity analysis and exposure analysis. With a view to limiting the market risk within a tolerable extent, the Bank also placed a strict limit for managing market risk and conducted regular stress tests to comprehensively identify, accurately measure and continuously monitor the market risk in different business lines.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **3.4.3.1 Market Risk of Bank Accounts**

#### **1. Interest Rate Risk Management**

The interest rate risk of the bank accounts arises primarily from the mismatch between the maturity and repricing dates of the Bank's interest rate-sensitive assets and liabilities. Confronting the challenges of liberalisation of interest rates and fierce competition in the banking industry, the Bank highly emphasised the allocation of maturity portfolio relating to its assets and liabilities. Within the framework of quota management, the Bank took full advantage of risk analysis tools, such as the gap analysis and the sensitivity analysis, to continuously monitor and evaluate the interest rate risk. The Bank also simulated the stress test in the interest rate scenario based on the analysed data in order to formulate a corresponding emergency plan. In addition, the Bank reasonably utilised its pricing mechanism for internal fund transfer to timely adjust the capital pricing and provided guidance to branches and sub-branches to strengthen the management over deposits and due and payable loans and to optimise the distribution of the maturity gaps of the interbank business under its head office, with the resultant effect of further improving its proactive management level of interest rate risk and continuously enhancing its capability of managing interest rate risk.

#### **2. Exchange Rate Risk Management**

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank's exposure to the exchange rate risk is mainly arisen from its loans and deposits denominated in currencies other than Renminbi.

In the first half of 2017, since the Renminbi exchange rate remained stable with a trend of moving upwards steadily, the Bank continued to enhance its analysis of the macro-economic environment and foreign exchanges movement. In particular, the Bank effectively prevented the exchange rate risk by primarily adopting a series of risk control measures, such as closing out market positions, regularly evaluating the profit and loss position of its proprietary foreign exchange capital, regularly conducting sensitivity analysis on foreign exchange exposures, and making use of derivatives and stress test of exchange rate risk. In addition, as for its assets business, the Bank

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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protected the safety of its assets denominated in foreign currencies by monitoring on a real time basis the impacts on the pledged assets caused by the fluctuation of the exchange rate and providing additional guarantees in a timely fashion.

### **3.4.3.2 Market Risk Management of Trading Accounts**

The market risk of trading accounts of the Bank arises primarily from the changes in asset values of financial products in the trading accounts due to changes in interest rates and exchange rates. The Bank reevaluated the market value of the position in its Renminbi trading accounts on a daily basis by setting market risk limit indicators such as trading exposure limit, stop-loss limit and value-at-risk limit for different products in its trading accounts. The Bank also measured the market risk of Renminbi and foreign currency trading accounts by conducting regular sensitivity analysis and stress test.

### **3.4.3.3 Interest Rate Risk Analysis**

Management of interest rate risk mainly aims at reducing the potential adverse impacts on the net interest income and economic value caused by the changes in the interest rate.

The Bank's interest rate risk mainly includes the repricing risk in the commercial banking business and the risk of treasury positions. The repricing risk, also referred to as the risk of maturity mismatching, is the primary and most common form of interest rate risk. It arises from the mismatch between the maturity of a bank's assets, liabilities and off-balance sheet business (in the case of fixed interest rate) and the maturity of repricing (in the case of floating interest rate). The asymmetry of repricing leads to the changes of a bank's revenue or market value caused by the changes in the interest rates. Based on the changes in the market situation, the Bank flexibly adjusted its management measures against interest rate risk to ensure its exposure to interest rate risk is reasonable and controllable.

### 3.4.4 Liquidity Risk Management

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

The Bank fully realised the importance of liquidity risk management. Firstly, the Bank included liquidity risk management into its strategic management, continuously improved its awareness of liquidity risk prevention, and continued to strengthen the prudent and forward-looking research and prediction of the trends in the macro-policy and capital market. At the same time, based on the development of its asset and liability business and its liquidity status, the Bank dynamically adjusted its liquidity management strategy and rationalised the adjustment of its liquidity reserves, effectively responded to policy changes, market fluctuation and other factors that may affect the Bank's liquidity. Secondly, the Bank continued to strengthen the management of assets and liabilities, rationalised the distribution of its assets/liabilities structure, improved the liquidity of its assets by various channels, and enhanced the stability of the source of liabilities by multiple means, which aimed at further strengthening its ability in managing assets and liabilities. Thirdly, the Bank strengthened the monitoring, identification and measurement of liquidity risk through its management system. It also strictly implemented a mechanism in connection with the regular measurement and control of liquidity risk, including the performance of daily review, weekly forecast, monthly analysis and normative quarterly pressure test to detect factors that may potentially create liquidity risk and to improve the proactivity and foresight of the Bank in respect of the prevention and control of liquidity risk. The Bank also formulated an emergency plan for liquidity related incidents, specified additional sources for the replenishment of liquidity and the liquidity related emergency disposal measures, improved its ability in responding to emergency events, and further increased its liquidity risk control standard.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **3.4.4.1 Liquidity Risk Analysis**

Facing the constant changes in the macro-environment, currency policy and regulatory policy, the Bank adhered to its prudent strategy for liquidity risk management to continuously enhance its ability of liquidity risk management. The Bank managed liquidity risk by monitoring the maturity of assets and liabilities, and actively monitored multiple liquidity indicators. In particular, it made regular forecasts of capital liquidity of each branch, analysed the liquidity status every month, and conducted liquidity stress test every quarter to make proper arrangements in advance and to strengthen its ability of proactively preventing liquidity risk. As such, it was ensured that the Bank would have sufficient liquidity. The Bank did not experience any liquidity risk during the Reporting Period.

### **3.4.5 Information Technology Risk Management**

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

In the first half of 2017, the Bank continuously enhanced its information technology risk management. Firstly, it formulated an information technology plan based on its business decisions, product innovation, risk control and the needs for self-development of information technology, further clarified its technology development idea, strategic distribution and resources allocation strategy and promoted the development of its information technology in an active and steady manner, which formed a solid foundation for achieving a sustainable and healthy development of the Bank. Secondly, in respect of the implementation of the CMMI-3 (Software Capability Maturity Model Integration – Level 3 Certification), the Bank refined and perfected its project management system and improved the quality and efficiency of its research and development of information technologies. Thirdly, the Bank carried out special checks and risk assessments on network security. In particular, it conducted special checks on the network security of its data centre infrastructure, key information infrastructure and information system. Further, the Bank adopted effective measures to assess the network security risk in order to prevent attack, virus, forgery, paralysis and secret leakage targeted on the development of its Internet business, to ensure the sustainable and stable operation of Bank's information system. Fourthly, the Bank enhanced the safe operation of the “three centers at two locations” at the Headquarters level and the data centre information technology at the

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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branch level, placed its focus on the procedures for the management of changes, events, issues, and capacity in the course of operation and maintenance of centres, and prevented the operational risk of information technology. At the same time, the Bank improved the management of desktop terminal security, and implemented measures to control terminal entry and terminal port so as to further protect the terminal and network security.

### **3.4.6 Reputational Risk Management**

Reputational risk refers to the risk that may cause negative comments on the Bank made by relevant interested parties due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

In the first half of 2017, the Bank continuously strengthened reputational risk management. Firstly, the Bank continued to refine its reputational risk management system. Also, by strengthening the construction of its reputational risk management system, the Bank further standardised the reputational risk management throughout the Bank and other entities that consolidated to the Bank's financial statements. Secondly, the Bank fully strengthened its efforts in monitoring public opinion. It refined the working platform to view the new development in public opinion and a daily reporting system under which any incident and even zero incident should be reported, in order to improve the timeliness and accuracy of its monitoring initiatives on public opinion. Further, the Bank strengthened its communication with the public media entities to timely study and analyse key highlights and focus of the society, resulting in improving the reputational risk management of the Bank so that it was predictable, specific and effective. Thirdly, the Bank conducted regular assessment and self-examination on reputational risk management, and carefully sorted out and detected the potential reputational risk, with an aim to continuously improving the Bank's reputational risk management. Fourthly, the Bank strengthened the development and cultivation of reputational risk management consciousness, conducted multi-level trainings and actively launched promotional activities in relation to its corporate image, products and business, with an aim to earnestly improve reputational risk prevention awareness and responding capability.



### 3.4.7 Compliance Risk Management

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

The Bank established a sound compliance risk management framework, improved its compliance risk management system, and strictly implemented its compliance management policy. Meanwhile, it formulated and implemented a compliance management plan focusing on risk control, and carried out the construction of a whole-process compliance management mechanism, thereby effectively improving the quality and efficiency of its compliance management. It also cultivated and built up the concept that the senior management should take initiative to and every employee should be responsible for actively fulfilling compliance duties and that compliance creates value, and promoted a code of conduct and concept of value of honesty and integrity across the Bank, reinforcing the compliance awareness of all employees. In addition, the Bank performed the compliance management functions including compliance review, check, monitoring, warning and policy maintenance, and accurately captured the trend in regulatory policy changes, enabling it to realise the effective identification, measurement, assessment, management and reporting of its compliance risk exposure.

The Bank's management of compliance risk aims at establishing a sound compliance risk management mechanism to effectively identify and manage compliance risk, with a view to ensuring the Bank's legal operation and steady development and improving its core competitiveness so that the Bank can deliver the best services to its customers, maximise the returns for its shareholders, and provide the best development opportunities for its employees.

### 3.4.8 Anti-Money Laundering Management

The Bank strictly complies with applicable anti-money laundering laws and regulations and attaches great importance to anti-money laundering work. In the first half of 2017, in accordance with the regulatory requirements of the Administrative Measures for the Financial Institutions to Report Large-sum Transactions and Suspicious Transactions (Order No.3 [2016] of the PROC) (《金融機構大額交易和可疑交易報告管理辦法》)(中國人民銀行令[2016]第3號), the Bank upgraded and reformed its monitoring system for anti-money laundering, independently established a model for monitoring suspicious transactions based on its own strengths, and updated its blacklist database. In particular, the Bank further implemented a management system tracking due diligence work on high-risk customers, strengthened the manual screening and analysis of suspicious transactions, and further enhanced the value of reporting key suspicious transactions, which effectively supported the People's Bank of China and public security departments in their efforts cracking down on money-laundering and other illegal activities. Firstly, the Bank continuously improved its organisational structure of anti-money laundering, and leveraged the administrative function of its anti-money laundering leadership team. In response to the regulatory requirements, the Bank continued to revise and improve its internal control policy for anti-money laundering and strengthened the implementation of such policy. Secondly, the Bank actively carried out special internal audit on anti-money laundering work, timely detected potential problems and deficiencies in the current system and adopted effective remedial measures, thereby improving the effectiveness of anti-money laundering risk management. Thirdly, the Bank organized special trainings and public campaign on anti-money laundering, and enhanced the capabilities of its anti-money laundering staff to fulfil their duties. By popularizing anti-money laundering information, the Bank helped to ensure that the general public are more aware of the harms caused by money laundering and terrorist financing and that their capacities of guarding against such risks are comprehensively enhanced. Fourthly, the Bank conducted review and appraisal of anti-money laundering work to award the best performing individuals and departments so as to fully mobilize their enthusiasm, initiative and efficiency in performing anti-money laundering work, thereby comprehensively enhancing the Bank's overall performance in anti-money laundering work. Fifthly, the Bank diligently fulfilled its anti-money laundering duties, actively cooperated with the regulatory authorities in their anti-money laundering inspections and investigations, and acted in strict compliance with its confidentiality duty in its anti-money laundering work.

### 3.5 FUTURE PROSPECTS

Currently, facing the complicated economic and financial situations at home and abroad, the yet transforming of the old economic dynamic to a new one, the continuous deepening of the financial reform, the constant innovation of financial technology, and the demands of customers that are experiencing a revolutionary change, the banking industry is confronted with unprecedentedly severe challenges. However, with the steady progress of the structural reform of the supply side, the deepened implementation of the three major strategies including the “Belt and Road” initiative, the coordinated development of the Beijing–Tianjin–Hebei region and the development of the Yangtze River economic belt, the accelerated implementation of integrated operations, as well as the resources integration between the financial industry and information technologies, the banking industry is embracing new models and new opportunities in its development.

Adhering to the general principle of making progress while maintaining stability, the Bank will actively adapt to the new normal of economic and financial development, accelerate to change the business ideas and development concept, and advance the strategic transformation in an all-round way, with an aim to developing itself into a comprehensive and quality joint stock commercial bank with a leading position among the banks of the same kind. Thirdly, the Bank will promote the business transformation toward a capital-light and assets-light model, develop financial market, investment banking and asset management businesses, and comprehensively optimise the structures of business, products, assets, liabilities and income. Thirdly, insisting on the market-oriented reform of management system, the Bank will continue to optimise and refine its corporate governance structure and operating mechanism, thereby establishing an operating management system with clear boundaries so that all the departments have clear definition of duties and powers and division of work and can collaborate with each other under mutual restraint and effective supervision. Thirdly, through deepening the construction of an incentive and constrain mechanism and the reform of its human resources system, the Bank will promote the strategic transformation with performance appraisal and remuneration distribution. Fifthly, while improving the capability of information technology to safeguard its business operation, the Bank will accelerate the upgrade and reconstruction of its information system, and strengthen the cross-sector cooperation with Internet enterprises. Moreover, the Bank will enhance its capabilities for provision of coordinated online and offline services and scenario-based financial services. Sixthly, adhering to the risk management concept of compliance with law, prudential operation and steady development, the Bank will optimise its risk management structure, improve risk management procedure, technology and tools, and continue to enhance the capacities for risk identification, measurement, monitoring, warning and handling.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

	31 December 2016		Changes during the Reporting Period			30 June 2017	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic							
Shares legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned							
legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private							
legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic							
Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
<b>Total</b>	<b>5,796,680,200</b>	<b>100.00</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>5,796,680,200</b>	<b>100.00</b>

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

### 4.1 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF DOMESTIC SHARES OF THE BANK

As at 30 June 2017, the top ten Shareholders of the Domestic Shares of the Bank are as follows:

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nanchang) Co., Ltd.	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. ("Xinhu Zhongbao")	Private	300,000,000	5.18	0
5	Founder Securities Co., Ltd. ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	36,000,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	2.04	0
<b>Total</b>			<b>3,309,675,427</b>	<b>57.10</b>	<b>36,000,000</b>

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

### 4.2 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2017, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Luck Extreme Limited <sup>(1)</sup>	Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Chan Hoi Wan <sup>(1)</sup>	Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Lau Luen Hung <sup>(1)</sup>	Interest of a child under 18 or spouse	577,180,500 (Long position)	37.46	9.96
Cheng Yu Tung Family (Holdings II) Limited <sup>(2)</sup>	Interest of a controlled corporation <sup>(2)</sup>	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings) Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook (Holding) Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Nominee Limited <sup>(2)</sup>	Beneficial owner <sup>(3)</sup> Interest of a controlled corporation <sup>(3)</sup>	179,518,060 (Long position)	11.65	3.10
Cheung Chung Kiu <sup>(4)</sup>	Interest of a controlled corporation	150,153,000 (Long position)	9.75	2.59

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Shanghai International Trust Co., Ltd. (上海國際信託有限公司)	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Bondic International Holdings Limited	Beneficial owner	100,153,000 (Long position)	6.50	1.73
Shun Yi International Trading Co., Ltd. (順意國際貿易有限公司)	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co. Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

### Notes:

- (1) Great Captain Limited held 577,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by Perfect Sign Investments Limited; Perfect Sign Investments Limited was wholly owned by Luck Extreme Limited; Luck Extreme Limited was wholly owned by Ms. Chan Hoi Wan. By virtue of the SFO, Perfect Sign Investments Limited, Luck Extreme Limited, Ms. Chan Hoi Wan and Mr. Lau Luen Hung are deemed to be interested in the Shares held by Great Captain Limited.
- (2) Chow Tai Fook Nominee Limited held 179,518,060 H Shares of the Bank. Chow Tai Fook Nominee Limited was held as to 99.8% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Cho Tai Fook Nominee Limited.
- (3) 52,576,500 H Shares were held in the capacity of beneficial owner, and 126,941,560 H Shares were held in the capacity of a controlled corporation.
- (4) Bondic International Holdings Limited held 100,153,000 H Shares of the Bank. Bondic International Limited was wholly owned by Mr. Cheung Chung Kiu. Bookman Properties Limited, Worthwell Investments Limited and Gold Faith Investments Limited held 10,000,000 H Shares, 25,000,000 H Shares and 15,000,000 H Shares of the Bank, respectively. Bookman Properties Limited, Worthwell Investments Limited and Gold Faith Investments Limited were indirectly owned by Mr. Cheung Chung Kiu. By virtue of the SFO, Mr. Cheung Chung Kiu was deemed to be interested in the Shares held by Bondic International Holdings Limited, Bookman Properties Limited, Worthwell Investments Limited and Gold Faith Investments Limited.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 30 June 2017, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
Evergrande <sup>(1)</sup>	Interest of a controlled corporation	1,001,680,000 (Long position)	23.54	17.28
Shenyang Hengxin	Beneficial owner	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. <sup>(3)</sup>	Interest of a controlled corporation	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Huibao International	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Beijing Jiutai Group Co., Ltd. <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Peking University Founder Group Co., Ltd. <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Peking University Asset Management Company Limited <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18



## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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*Notes:*

- (1) China Evergrande Group (“Evergrande”) (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,001,680,000 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Group (Nanchang) Co., Ltd. (恆大集團(南昌)有限公司).
- (2) According to the register of shareholders of the Bank as at 30 June 2017, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) Huibao International was wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which was in turn owned as to 70% by Li Yuguo (李玉國). By virtue of the SFO, Beijing Jiutai Group Co., Ltd. and Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Based on the information provided by Xinhua Zhongbao, Xinhua Zhongbao was owned as to 40.23% by Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), which was in turn owned as to 67.22% by Huang Wei (黃偉). By virtue of the SFO, each of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) and Huang Wei (黃偉) is deemed to be interested in the Shares held by Xinhua Zhongbao.
- (6) Based on the information provided by Founder Securities, Founder Securities was owned as to 29.29% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which was in turn owned as to 70% by Peking University Asset Management Company Limited (北大資產經營有限公司).

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 30 June 2017 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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### 4.3 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Group (Nanchang) Co., Ltd., Great Captain Limited, Shenyang Hengxin, Huibao International, Xinhua Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 577,180,500 H Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 9.96%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively. The Shares held by Great Captain Limited are counted as part of the Bank's public float.

### 4.4 ISSUANCE AND LISTING OF SECURITIES

Reference is made to the announcement of the Bank dated 31 March 2017. In light of the changes in a core member of the Board and the shareholding structure of the Bank during the vetting period of the Bank's A-share listing application, after consultations with the China Securities Regulatory Commission (the "CSRC") and careful studies and discussions with the professional parties involved in the Bank's A-share listing application, the Bank has decided to withdraw the A-share listing application.

### 4.5 ISSUANCE OF DEBT SECURITIES

#### 1. Debt Securities Issued

The Bank issued ten-year subordinated bonds in 2011 with an aggregate principal amount of RMB900 million and an interest rate of 6.50% per annum. The Bank has redeemed these bonds on 4 November 2016.

In 2014, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. Such Tier 2 capital bonds will be due on 30 May 2024.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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In December 2015, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB10 billion and an annual interest rate of 4.57%. Such Tier 2 capital bonds will be due on 8 December 2025. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

On 26 August 2016, the Bank issued financial bonds in the aggregate principal amount of RMB7 billion to members of the inter-bank bond market in China. The bonds comprise two types, which are three-year fixed rate bonds with an interest rate of 3.0% per annum and five-year fixed rate bonds with an interest rate of 3.1% per annum. The proceeds from the issuance of the bonds will be used for loans to small and miniature enterprises in accordance with the applicable laws and the approvals from regulatory authorities as well as the relevant national industrial policies.

### **2. Proposed Issuance of Debt Securities**

The Board has resolved, and the Shareholders have approved at the 2014 annual general meeting of the Bank held on 26 May 2015 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue the following debt securities:

- (i) Financial bonds in an aggregate principal amount of up to RMB10 billion to the members of the inter-bank bond market in China, with a term of maturity of less than five years (inclusive) and an interest rate to be determined by the senior management of the Bank, subject to the authorisation by the Board and based on the investors' demand, the market environment and the operation of the Bank at the time of issuance of such bonds. The proceeds from the issuance of such bonds will be used to replenish the Bank's medium- and long-term liquidity; and
- (ii) Renminbi-denominated bonds in an aggregate principal amount of up to RMB1.5 billion to overseas investors, with a term of maturity of less than five years (inclusive) and an interest rate to be determined by the senior management of the Bank, subject to the authorisation by the Board and based on the investors' demand, the market environment and the operation of the Bank at the time of issuance of such bonds. The proceeds from the issuance of such bonds will be used to replenish the Bank's medium-and long-term liquidity.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

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The Board has resolved, and the Shareholders have approved at the 2015 annual general meeting of the Bank held on 13 June 2016 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue tier 2 capital bonds in the aggregate principal amount of up to RMB6 billion to members of the interbank bond market in China. The bonds will have a term of maturity of not more than 15 years with a redemption right from the end of the fifth year. The bonds will have a fixed interest rate payable on an annual basis to be determined through a public tender process. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

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

### **4.6 PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE BANK**

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

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## 5.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of disclosure of this report, the Directors, Supervisors and senior management of the Bank comprised:

Name	Age	Position
Mr. ZHANG Qiyang (張啟陽)	52	Executive Director, Chairperson of the Board
Mr. WANG Chunsheng (王春生)	55	Executive Director, President
Mr. WANG Yigong (王亦工)	51	Executive Director, Vice President and chief risk officer
Mr. WU Gang (吳剛)	47	Executive Director, Vice President
Mr. SUN Yongsheng (孫永生)	57	Executive Director, Vice President
Mr. LI Yuguo (李玉國)	63	Non-executive Director, Vice Chairman of the Board
Mr. QIU Huofa (邱火發)	57	Non-executive Director
Mr. LI Jianwei (李建偉)	57	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	57	Non-executive Director
Mr. LIU Xinfu (劉新發)	58	Non-executive Director
Mr. YU Yongshun (于永順)	66	Independent Non-executive Director
Mr. LAU Chi Pang (劉智鵬)	56	Independent Non-executive Director
Mr. BA Junyu (巴俊宇)	62	Independent Non-executive Director
Mr. SUN Hang (孫航)	51	Independent Non-executive Director
Mr. DING Jiming (丁繼明)	53	Independent Non-executive Director
Mr. YANG Lin (楊林)	56	Employee Representative Supervisor, Chairman of the Board of Supervisors
Mr. HAN Xuefeng (韓學豐)	46	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	52	Employee Representative Supervisor
Mr. CHEN Zhaogui (陳招貴)	59	Shareholder Representative Supervisor
Mr. PAN Wenge (潘文戈)	51	Shareholder Representative Supervisor
Ms. SUN Yi (孫奕)	63	Shareholder Representative Supervisor
Mr. HUANG Liangkuai (黃良快)	74	External Supervisor
Mr. ZHOU Zheren (周喆人)	40	External Supervisor
Mr. WEN Zhaoye (溫兆曄)	42	External Supervisor
Mr. HU Guang (胡光)	57	Chief internal auditor
Mr. ZHANG Yi (張翼)	46	Chief information officer
Mr. LIU Zhiyan (劉志岩)	57	Chief financial officer
Mr. ZHOU Zhi (周峙)	48	Secretary of the Board

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

As at 30 June 2017, the interests or short positions of the Directors, the Supervisors and the chief executives and their respective associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

### Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held (share)	Representing percentage with respect to Domestic Shares of the Bank (%)	Representing percentage with respect to the total share capital of the Bank (%)
WANG Chunsheng (王春生)	Executive Director, President	Beneficial owner	6,500	0.0002	0.0001
LI Yuguo (李玉國)	Non-executive Director, Vice Chairman of the Board	Interest of a controlled corporation	400,000,000 <sup>(1)</sup>	9.3986	6.9005
LIU Xinfu (劉新發)	Non-executive Director	Interest of a controlled corporation	190,000,000 <sup>(2)</sup>	4.4644	3.2777
YANG Lin (楊林)	Employee Representative Supervisor, Chairman of the Board of Supervisors	Beneficial owner	36,274	0.0009	0.0006
HAN Xuefeng (韓學豐)	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors	Beneficial owner	15,681	0.0004	0.0003
SHI Yang (石陽)	Employee Representative Supervisor	Beneficial owner	107,684	0.0025	0.0019
WU Gang (吳剛)	Executive Director, Vice President	Interest of spouse	5,722	0.0001	0.0001
WU Gang (吳剛)	Executive Director, Vice President	Beneficial owner	146,149	0.0034	0.0025
CHEN Zhaogui (陳招貴)	Shareholder Representative Supervisor	Interest of a controlled corporation	200,000,000	4.6993	3.4503

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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*Notes:*

- (1) Please refer to “Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons” in the interim report for details.
- (2) Zhongyou Tianbao held 190,000,000 shares of Domestic Shares of the Bank. Zhongyou Tianbao was owned as to 80% by Liu Xinfu (劉新發). By virtue of the SFO, Liu Xinfu (劉新發) is deemed to be interested in the Shares held by Zhongyou Tianbao.

Save as disclosed above, none of the Directors, the Supervisors, or the chief executives and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 30 June 2017 which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

### 5.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Due to work arrangement, Ms. Yang Yuhua has resigned from the positions of the non-executive director, member of the nomination and remuneration committee of the Board and member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017.

In the 2016 annual general meeting of the Bank held on 16 May 2017, Mr. ZHANG Qiyang was elected as an executive director. In the Board meeting held on the same date, Mr. ZHANG Qiyang was elected as the chairman of the Board, vice chairman of the nomination and remuneration committee of the Board and chairman of the strategic development committee of the Board. The CBRC Liaoning Bureau has ratified the eligibility of Mr. ZHANG Qiyang to serve as an executive director of the Bank and the chairman of the Board, and the term of office of Mr. ZHANG Qiyang commenced from 9 June 2017.

In the 2016 annual general meeting of the Bank held on 16 May 2017, Mr. QIU Huofa was elected as a non-executive director. In the Board meeting held on the same date, Mr. QIU Huofa was elected as a member of the nomination and remuneration committee and the strategic development committee of the Board. The CBRC Liaoning Bureau has ratified the eligibility of Mr. QIU Huofa to service as a non-executive director of the Bank, and the term of office of Mr. QIU Huofa commenced from 11 August 2017.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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### 5.3 SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

### 5.4 EMPLOYEES, EMPLOYEES’ COMPENSATION POLICIES AND TRAINING SCHEMES

As at 30 June 2017, the Bank had 4,925 employees in total.

The Bank has established a performance-based compensation system whereby an employee’s compensation is determined based on position and performance review. The Bank contributes to its employees’ social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

According to its overall development strategies and training plans, the Bank has implemented a diversified training programme, effectively enhancing the overall competence of and supporting the professional growth of its employees of all levels and positions. During the Reporting Period, the Bank integrated the training resources of its head office, branches and sub-branches and diversified its training methods. It organised research sessions on financial environment and business innovation for middle to senior level management by offering off-job studies and inviting external experts for lectures. These programmes not only focus on primary and innovative businesses as well as specialised business lines but also integrate on-the-job trainings and communications, so as to carry out employee trainings in accordance with business lines and allocated batches. In addition, the Bank strengthened the construction of its internal lecturers. During the Reporting Period, the Bank conducted employee training sessions with total enrolments of 24,227.



## 6.1 CORPORATE GOVERNANCE CODE

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

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of insider information. During the Reporting Period, the Bank issued 2016 Environmental, Social and Governance Report under the Listing Rules.

## 6.2 EARNINGS AND DIVIDENDS

The Bank's revenue for the six months ended 30 June 2017 and the Bank's financial position as at the same date are set out in the section headed "Interim Financial Statements".

A final dividend of RMB2.5 for every ten Shares (tax inclusive) for the year 2016 (2015: RMB2.8 for every ten Shares (tax inclusive)), or in an aggregate amount of RMB1,449.17 million, has been distributed by the Bank upon consideration and approval at the Bank's 2016 annual general meeting held on 16 May 2017. The final dividend for the year 2016 was distributed to holders of Domestic Shares and H Shares on 14 July 2017.

The Bank will not distribute any interim dividend for the first six months of 2017 or convert any capital reserve into share capital.

## 6.3 RELATED PARTY TRANSACTIONS

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

## 6.4 MATERIAL LITIGATION AND ARBITRATION

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

## SIGNIFICANT EVENTS (CONTINUED)

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### **6.5 PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

### **6.6 WITHDRAWAL OF A-SHARE LISTING APPLICATION**

Reference is made to the announcement of the Bank dated 31 March 2017. In light of the changes in a core member of the Board and the shareholding structure of the Bank during the vetting period of the Bank's A-share listing application, after consultations with the CSRC and careful studies and discussions with the professional parties involved in the Bank's A-share listing application, the Bank decided to withdraw the A-share listing application.

### **6.7 REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN**

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

## SIGNIFICANT EVENTS (CONTINUED)

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Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to, among other things, the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. The CSRC has accepted the application materials for the A Share Offering. A copy of the A share prospectus has been made available on the official website of the CSRC ([www.csrc.gov.cn](http://www.csrc.gov.cn)) for preliminary publication.

As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the "Lock-up Period"). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank's written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

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

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables due and payable was approximately RMB654 million, and the balance of the impairment provision was RMB331 million.

## SIGNIFICANT EVENTS (CONTINUED)

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### **6.8 AMENDMENT TO ARTICLES OF ASSOCIATION**

Reference is made to (i) the announcement of the Bank dated 16 May 2017 in relation to, among other things, the resolution on the approval of the amendment to the Articles of Association by Shareholders at the 2016 annual general meeting of the Bank; and (ii) the announcement of the Bank dated 13 August 2017. The amended Articles of Association was approved by the CBRC Liaoning Bureau on 8 August 2017 and has become effective on the same date.

### **6.9 REVIEW OF THE INTERIM REPORT**

Financial statements disclosed herein have not been audited. The interim financial statements for the six months ended 30 June 2017 prepared by the Bank in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410.

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

### **6.10 PUBLICATION OF INTERIM REPORT**

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

# REVIEW REPORT OF THE INDEPENDENT AUDITORS

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## **Review report to the shareholders of Shengjing Bank Co., Ltd.**

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

## **INTRODUCTION**

We have reviewed the interim financial report set out on pages 89 to 201 which comprises the consolidated statement of financial position of Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") as of 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## REVIEW REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

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### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

18 August 2017

# UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017  
(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
Interest income		18,443,387	17,413,268
Interest expense		<u>(12,973,887)</u>	<u>(10,927,801)</u>
<b>Net interest income</b>	5	<u>5,469,500</u>	<u>6,485,467</u>
Fee and commission income		1,178,619	964,476
Fee and commission expense		<u>(111,113)</u>	<u>(106,175)</u>
<b>Net fee and commission income</b>	6	<u>1,067,506</u>	<u>858,301</u>
Net trading (losses)/gains	7	(685,600)	17,542
Net gains arising from investments	8	41,487	424,544
Net foreign exchange gains/(losses)		568,972	(25,440)
Other operating income	9	<u>7,574</u>	<u>27,606</u>
<b>Operating income</b>		6,469,439	7,788,020
Operating expenses	10	(1,645,935)	(1,958,022)
Impairment losses on assets	11	<u>(603,837)</u>	<u>(1,137,444)</u>
<b>Profit before taxation</b>		4,219,667	4,692,554
Income tax expense	12	<u>(715,471)</u>	<u>(1,070,849)</u>
<b>Profit for the period</b>		<u>3,504,196</u>	<u>3,621,705</u>

The notes on pages 99 to 201 form part of this interim financial report.

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

For the six months ended 30 June 2017

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

	Note	Six months ended 30 June	
		2017	2016
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		3,506,738	3,616,388
Non-controlling interests		(2,542)	5,317
		<u>3,504,196</u>	<u>3,621,705</u>
<b>Net profit</b>		<u>3,504,196</u>	<u>3,621,705</u>
<b>Other comprehensive income:</b>			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(5)	(1,489)
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets: net movement in the fair value reserve		(2,267)	(434,369)
<b>Other comprehensive income net of tax</b>		<u>(2,272)</u>	<u>(435,858)</u>
<b>Total comprehensive income</b>		<u>3,501,924</u>	<u>3,185,847</u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		3,504,466	3,180,530
Non-controlling interests		(2,542)	5,317
		<u>3,501,924</u>	<u>3,185,847</u>
Basic and diluted earnings per share (in RMB)	13	<u>0.60</u>	<u>0.62</u>

The notes on pages 99 to 201 form part of this interim financial report.



# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2017	31 December 2016
<b>Assets</b>			
Cash and deposits with central bank	14	76,310,317	71,375,747
Deposits with banks and other financial institutions	15	67,757,823	90,789,790
Placements with banks and other financial institutions	16	12,068,880	21,138,110
Derivative financial assets	17	132,098	276,546
Financial assets held under resale agreements	18	4,020,050	16,039,394
Loans and advances to customers	19	270,708,609	228,880,732
Financial investments:			
Available-for-sale financial assets	20(a)	80,285,155	46,328,907
Held-to-maturity investments	20(b)	179,058,886	171,504,761
Loans and receivables	20(c)	234,283,808	245,532,030
Property and equipment	21	4,953,040	4,808,579
Deferred tax assets	22	1,600,930	1,411,125
Other assets	23	7,531,514	7,396,926
<b>Total assets</b>		<b>938,711,110</b>	<b>905,482,647</b>
<b>Liabilities</b>			
Borrowings from central bank	24	70,500,000	118,800,000
Deposits from banks and other financial institutions	25	138,220,895	143,378,530
Placements from banks and other financial institutions	26	31,098,801	38,940,901
Derivative financial liabilities	17	541,801	14,206
Financial assets sold under repurchase agreements	27	47,213,674	40,285,591
Deposits from customers	28	443,457,433	415,246,159
Income tax payable		335,482	1,022,797
Debt securities issued	29	134,286,716	87,289,181
Other liabilities	30	24,628,928	14,130,656
<b>Total liabilities</b>		<b>890,283,730</b>	<b>859,108,021</b>

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2017	31 December 2016
<b>Equity</b>			
Share capital	31	5,796,680	5,796,680
Capital reserve	32	11,855,505	11,855,505
Surplus reserve	32	5,352,502	4,666,968
General reserve	32	11,033,726	9,267,100
Fair value reserve		(94,311)	(92,044)
Deficit on remeasurement of net defined benefit liability		(5,473)	(5,468)
Retained earnings		<u>13,911,096</u>	<u>14,305,688</u>
<b>Total equity attributable to equity shareholders of the Bank</b>		47,849,725	45,794,429
<b>Non-controlling interests</b>		<u>577,655</u>	<u>580,197</u>
<b>Total equity</b>		<u>48,427,380</u>	<u>46,374,626</u>
<b>Total liabilities and equity</b>		<u>938,711,110</u>	<u>905,482,647</u>

Approved and authorised for issue by the board of directors on 18 August 2017.

**Zhang Qiyang**

*Chairman of Board of Directors*

**Sun Yongsheng**

*Executive Director/Vice President*

**Liu Zhiyan**

*Chief Financial Officer*

**Company chop**

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016  
(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016		5,796,680	11,855,505	3,893,846	6,176,638	623,163	(5,126)	12,927,822	41,268,528	446,425	41,714,953
Profit for the period		-	-	-	-	-	-	3,616,388	3,616,388	5,317	3,621,705
Other comprehensive income		-	-	-	-	(434,369)	(1,489)	-	(435,858)	-	(435,858)
Total comprehensive income		-	-	-	-	(434,369)	(1,489)	3,616,388	3,180,530	5,317	3,185,847
Changes in share capital											
- Non-controlling interests of a new subsidiary		-	-	-	-	-	-	-	-	120,000	120,000
Appropriation of profit:											
- Appropriation to surplus reserve	33	-	-	620,616	-	-	-	(620,616)	-	-	-
- Appropriation to general reserve (Note (i))	33	-	-	-	3,090,462	-	-	(3,090,462)	-	-	-
- Cash dividends	33	-	-	-	-	-	-	(1,623,070)	(1,623,070)	-	(1,623,070)
Subtotal		-	-	620,616	3,090,462	-	-	(5,334,148)	(1,623,070)	-	(1,623,070)
Balance at 30 June 2016		5,796,680	11,855,505	4,514,462	9,267,100	188,794	(6,615)	11,210,062	42,825,988	571,742	43,397,730

*Note:*

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB99 thousand.

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 July 2016		5,796,680	11,855,505	4,514,462	9,267,100	188,794	(6,615)	11,210,062	42,825,988	571,742	43,397,730
Profit for the period		-	-	-	-	-	-	3,248,132	3,248,132	8,455	3,256,587
Other comprehensive income		-	-	-	-	(280,838)	1,147	-	(279,691)	-	(279,691)
Total comprehensive income		-	-	-	-	(280,838)	1,147	3,248,132	2,968,441	8,455	2,976,896
Appropriation of profit:											
- Appropriation to surplus reserve	33	-	-	152,506	-	-	-	(152,506)	-	-	-
Subtotal		-	-	152,506	-	-	-	(152,506)	-	-	-
Balance at 31 December 2016		5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017		5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626
Profit for the period		-	-	-	-	-	-	3,506,738	3,506,738	(2,542)	3,504,196
Other comprehensive income		-	-	-	-	(2,267)	(5)	-	(2,272)	-	(2,272)
Total comprehensive income		-	-	-	-	(2,267)	(5)	3,506,738	3,504,466	(2,542)	3,501,924
Appropriation of profit:											
- Appropriation to surplus reserve	33	-	-	685,534	-	-	-	(685,534)	-	-	-
- Appropriation to general reserve (Note (i))	33	-	-	-	1,766,626	-	-	(1,766,626)	-	-	-
- Cash dividends	33	-	-	-	-	-	-	(1,449,170)	(1,449,170)	-	(1,449,170)
Subtotal		-	-	685,534	1,766,626	-	-	(3,901,330)	(1,449,170)	-	(1,449,170)
Balance at 30 June 2017		5,796,680	11,855,505	5,352,502	11,033,726	(94,311)	(5,473)	13,911,096	47,849,725	577,655	48,427,380

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB3,273 thousand.

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
<b>Cash flows from operating activities</b>			
Profit before taxation		4,219,667	4,692,554
<i>Adjustments for:</i>			
Impairment losses on assets		603,837	1,137,444
Depreciation and amortisation		181,153	161,933
Unwinding of discount		(52,124)	(13,748)
Unrealised foreign exchange gains		(240,247)	(16,058)
Dividend income		(23,111)	–
Net trading losses/(gains)		685,600	(17,542)
Net gains on disposal of available-for-sale financial assets		(18,376)	(424,544)
Interest expense on debt securities issued		1,886,856	1,322,477
Interest income on financial investments and financial assets at fair value through profit or loss		(9,462,681)	(8,860,446)
		(2,219,426)	(2,017,930)
<i>Changes in operating assets</i>			
Net increase in deposits with central bank		(1,958,680)	(3,100,275)
Net decrease in deposits and placements with banks and other financial institutions		18,034,450	970,734
Net increase in loans and advances to customers		(42,360,293)	(30,874,367)
Net decrease in financial assets held under resale agreements		–	4,897,158
Net (increase)/decrease in other operating assets		(313,021)	1,754,300
		(26,597,544)	(26,352,450)

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

	<i>Note</i>	Six months ended 30 June	
		2017	2016
<i>Changes in operating liabilities</i>			
Net (decrease)/increase in borrowings from central bank		(48,300,000)	53,500,000
Net (decrease)/increase in deposits and placements from banks and other financial institutions		(12,999,735)	40,089,546
Net increase/(decrease) in financial assets sold under repurchase agreements		6,928,083	(37,734,168)
Net increase in deposits from customers		28,211,274	42,814,934
Income tax paid		(1,591,833)	(1,381,304)
Net increase in other operating liabilities		9,449,977	188,180
		<u>(18,302,234)</u>	<u>97,477,188</u>
<b>Net cash flows (used in)/generated from operating activities</b>		<u>(47,119,204)</u>	<u>69,106,808</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of investments		966,211,977	283,859,482
Payments on acquisition of investments		(986,831,259)	(351,047,996)
Payments on acquisition of property and equipment, intangible assets and other assets		(321,758)	(518,009)
<b>Net cash flows used in investing activities</b>		<u>(20,941,040)</u>	<u>(67,706,523)</u>

The notes on pages 99 to 201 form part of this interim financial report.

# UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
<b>Cash flows from financing activities</b>			
Capital injection from non-controlling interests of a new subsidiary		–	120,000
Net proceeds from new debt securities issued		141,365,670	70,360,235
Repayment of debt securities issued		(94,368,135)	(68,083,832)
Interest paid on debt securities issued		(1,613,867)	(1,132,524)
Dividends paid		(118,126)	(21)
<b>Net cash flows generated from financing activities</b>		<u>45,265,542</u>	<u>1,263,858</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>(315,499)</u>	<u>46,086</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(23,110,201)	2,710,229
<b>Cash and cash equivalents as at 1 January</b>		<u>92,555,618</u>	<u>66,587,276</u>
<b>Cash and cash equivalents as at 30 June</b>	34	<u><u>69,445,417</u></u>	<u><u>69,297,505</u></u>
<b>Net cash flows generated from operating activities include:</b>			
Interest received		<u>9,497,440</u>	<u>9,755,034</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(9,376,977)</u>	<u>(8,674,111)</u>

The notes on pages 99 to 201 form part of this interim financial report.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 1 REPORTING ENTITY

Shengjing Bank Co., Ltd. (the “Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). These consolidated interim financial statements (the “interim financial report”) as at and for the six months ended 30 June 2017 comprise the Bank and its subsidiaries (together referred to as the “Group”). The principal activities of the Group are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the China Banking Regulatory Commission (the “CBRC”). The Bank mainly operated in mainland China, which, for the purpose of this interim financial report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

As at 30 June 2017, details of the subsidiaries are as follows:

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board. It was authorised for issue on 18 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board (the "IASB") has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4 SEGMENT REPORTING

### (a) Business Segment

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

#### ***Corporate banking***

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

#### ***Retail banking***

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

#### *Treasury business*

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

#### *Others*

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

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

	Six months ended 30 June 2017				Total
	Corporate banking	Retail banking	Treasury business	Others	
Operating income					
External net interest income/ (expense)	1,359,864	(1,912,411)	6,022,047	–	5,469,500
Internal net interest income/ (expense)	<u>2,090,178</u>	<u>2,134,699</u>	<u>(4,224,877)</u>	<u>–</u>	<u>–</u>
Net interest income	3,450,042	222,288	1,797,170	–	5,469,500
Net fee and commission income	782,109	271,641	13,756	–	1,067,506
Net trading losses		–	(685,600)	–	(685,600)
Net gains arising from investments	–	–	18,376	23,111	41,487
Net foreign exchange gains	–	–	568,972	–	568,972
Other operating income	<u>1,461</u>	<u>737</u>	<u>–</u>	<u>5,376</u>	<u>7,574</u>
Operating income	4,233,612	494,666	1,712,674	28,487	6,469,439
Operating expenses	(1,197,743)	(335,515)	(111,826)	(851)	(1,645,935)
Impairment losses on assets	<u>(567,837)</u>	<u>(10,000)</u>	<u>(26,000)</u>	<u>–</u>	<u>(603,837)</u>
Profit before taxation	2,468,032	149,151	1,574,848	27,636	4,219,667
Other segment information					
– Depreciation and amortisation	<u>135,429</u>	<u>39,047</u>	<u>6,677</u>	<u>–</u>	<u>181,153</u>
– Capital expenditure	<u>240,545</u>	<u>69,353</u>	<u>11,860</u>	<u>–</u>	<u>321,758</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

	30 June 2017				Total
	Corporate Banking	Retail banking	Treasury business	Others	
Segment assets	313,698,003	18,058,856	604,969,296	384,025	937,110,180
Deferred tax assets					<u>1,600,930</u>
Total assets					<u><u>938,711,110</u></u>
Segment liabilities/Total liabilities	<u>355,026,741</u>	<u>144,941,590</u>	<u>388,775,016</u>	<u>1,540,383</u>	<u>890,283,730</u>
Credit commitments	<u>152,350,840</u>	<u>2,146,210</u>	<u>-</u>	<u>-</u>	<u>154,497,050</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

	Six months ended 30 June 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	2,565,271	(1,751,126)	5,671,322	–	6,485,467
Internal net interest income/ (expense)	1,619,928	2,074,648	(3,694,576)	–	–
Net interest income	4,185,199	323,522	1,976,746	–	6,485,467
Net fee and commission income	710,084	141,833	6,384	–	858,301
Net trading gains	–	–	17,542	–	17,542
Net gains arising from investments	–	–	424,544	–	424,544
Net foreign exchange losses	–	–	(25,440)	–	(25,440)
Other operating income	20,446	755	–	6,405	27,606
Operating income	4,915,729	466,110	2,399,776	6,405	7,788,020
Operating expenses	(1,276,969)	(318,495)	(361,119)	(1,439)	(1,958,022)
Impairment losses on assets	(860,917)	(16,527)	(260,000)	–	(1,137,444)
Profit before taxation	2,777,843	131,088	1,778,657	4,966	4,692,554
Other segment information					
– Depreciation and amortisation	121,135	34,899	5,899	–	161,933
– Capital expenditure	387,498	111,640	18,871	–	518,009

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

	31 December 2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	271,909,537	15,508,795	616,269,165	384,025	904,071,522
Deferred tax assets					<u>1,411,125</u>
Total assets					<u><u>905,482,647</u></u>
Segment liabilities/Total liabilities	<u>294,518,492</u>	<u>132,016,734</u>	<u>432,257,727</u>	<u>315,068</u>	<u>859,108,021</u>
Credit commitments	<u>152,442,135</u>	<u>2,146,488</u>	<u>-</u>	<u>-</u>	<u>154,588,623</u>

### (b) Geographical information

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

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

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 4 SEGMENT REPORTING (CONTINUED)

### (b) Geographical information (Continued)

- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

	Operating income	
	Six months ended 30 June	
	2017	2016
Northeast China	5,506,354	6,835,500
North China	730,088	665,051
Others	<u>232,997</u>	<u>287,469</u>
Total	<u><u>6,469,439</u></u>	<u><u>7,788,020</u></u>

	Non-current assets (Note i)	
	30 June	31 December
	2017	2016
Northeast China	4,743,750	4,594,028
North China	337,276	353,087
Others	<u>30,835</u>	<u>24,141</u>
Total	<u><u>5,111,861</u></u>	<u><u>4,971,256</u></u>

Note:

- (i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 5 NET INTEREST INCOME

	Six months ended 30 June	
	2017	2016
<b>Interest income arising from</b>		
Deposits with central bank	435,722	419,384
Deposits and placements with banks and other financial institutions	1,291,830	1,426,292
Financial assets at fair value through profit or loss	84,846	79,211
Loans and advances to customers		
– Corporate loans and advances	6,821,926	6,275,600
– Personal loans and advances	213,147	174,612
– Discounted bills	84,916	107,185
Financial assets held under resale agreements	133,165	149,749
Financial investments	9,377,835	8,781,235
Subtotal	18,443,387	17,413,268
<b>Interest expense arising from</b>		
Borrowings from central bank	(1,390,720)	(596,259)
Deposits and placements from banks and other financial institutions	(1,683,352)	(2,158,621)
Deposits from customers	(7,547,691)	(6,689,935)
Financial assets sold under repurchase agreements	(465,268)	(160,509)
Debt securities issued	(1,886,856)	(1,322,477)
Subtotal	(12,973,887)	(10,927,801)
<b>Net interest income</b>	<b>5,469,500</b>	<b>6,485,467</b>
Of which:		
Interest income arising from impaired financial assets identified	52,124	13,748

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 5 NET INTEREST INCOME (CONTINUED)

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2017 amounted to RMB18,359 million (the six months ended 30 June 2016: RMB17,334 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2017 amounted to RMB12,974 million (the six months ended 30 June 2016: RMB10,928 million).

## 6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
<b>Fee and commission income</b>		
Agency and custody services fees	1,095,050	857,936
Settlement and clearing services fees	68,291	88,233
Bank card services fees	15,278	18,307
Subtotal	1,178,619	964,476
<b>Fee and commission expense</b>	(111,113)	(106,175)
<b>Net fee and commission income</b>	<u>1,067,506</u>	<u>858,301</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 7 NET TRADING (LOSSES)/GAINS

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

### 8 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2017	2016
Dividends from available-for-sale equity investments	23,111	–
Net gains on disposal of available-for-sale financial assets	18,376	424,544
Total	41,487	424,544

### 9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
Government grants	5,310	4,866
Handling charge income	737	755
Asset-backed securities service fees	–	8,859
Others	1,527	13,126
Total	7,574	27,606

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 10 OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
Staff costs		
– Salaries, bonuses and allowances	731,469	660,517
– Pension and annuity	99,825	103,366
– Other social insurance	86,604	80,228
– Housing allowances	39,852	36,480
– Supplementary retirement benefits	1,181	2,550
– Others	43,519	40,041
	<u>1,002,450</u>	<u>923,182</u>
Subtotal	1,002,450	923,182
Depreciation and amortisation	181,153	161,933
Rental and property management expenses	116,489	90,530
Office expenses	106,223	133,450
Tax and surcharges	93,408	515,014
Other general and administrative expenses	146,212	133,913
	<u>1,645,935</u>	<u>1,958,022</u>
Total	<u>1,645,935</u>	<u>1,958,022</u>

### 11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2017	2016
Loans and advances to customers	583,574	859,166
Financial investments classified as loans and receivables	26,000	260,000
Others	(5,737)	18,278
	<u>603,837</u>	<u>1,137,444</u>
Total	<u>603,837</u>	<u>1,137,444</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 12 INCOME TAX EXPENSE

**(a) Income tax for the period:**

	Six months ended 30 June	
	2017	2016
Current tax	904,518	1,240,747
Deferred tax	(189,047)	(169,898)
Total	<u>715,471</u>	<u>1,070,849</u>

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

	Six months ended 30 June	
	2017	2016
Profit before taxation	<u>4,219,667</u>	<u>4,692,554</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>1,054,917</u>	<u>1,173,139</u>
Non-deductible expenses		
– Entertainment expenses	1,869	1,951
– Others	805	1,880
	<u>2,674</u>	<u>3,831</u>
Non-taxable income	<u>(342,120)</u>	<u>(106,121)</u>
Income tax	<u>715,471</u>	<u>1,070,849</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 13 BASIC AND DILUTED EARNINGS PER SHARE

	Six months ended 30 June	
	2017	2016
Net profit attributable to equity shareholders of the Bank	3,506,738	3,616,388
Weighted average number of ordinary shares (in thousands)	5,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	0.60	0.62

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

### 14 CASH AND DEPOSITS WITH CENTRAL BANK

	<i>Note</i>	30 June	31 December
		2017	2016
Cash on hand		685,711	642,182
Deposits with central bank			
– Statutory deposit reserves	14(a)	50,868,618	49,579,054
– Surplus deposit reserves	14(b)	23,768,013	20,835,652
– Foreign currency risk reserves	14(c)	655,049	–
– Fiscal deposits		332,926	318,859
Subtotal		75,624,606	70,733,565
Total		76,310,317	71,375,747

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 14 CASH AND DEPOSITS WITH CENTRAL BANK (CONTINUED)

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

	30 June 2017	31 December 2016
Reserve ratio for RMB deposits	13.5%	13.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

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

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

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Deposits in mainland China		
– Banks	66,603,784	89,439,437
– Other financial institutions	4,290	4,290
Deposits outside mainland China		
– Banks	<u>1,149,749</u>	<u>1,346,063</u>
Total	<u><u>67,757,823</u></u>	<u><u>90,789,790</u></u>

### 16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Placements in mainland China		
– Banks	10,068,880	19,138,110
– Other financial institutions	<u>2,000,000</u>	<u>2,000,000</u>
Total	<u><u>12,068,880</u></u>	<u><u>21,138,110</u></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 17 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

#### (a) Analysed by nature of contract

	30 June 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	37,619,709	50,051	(413,314)
Foreign exchange forwards	4,189,066	82,047	(30,710)
Precious metal derivatives	6,411,478	–	(97,777)
Total	48,220,253	132,098	(541,801)

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Analysed by nature of contract (Continued)

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	14,535,389	251,401	(14,206)
Foreign exchange forwards	4,715,668	22,015	–
Precious metal derivatives	145,640	3,130	–
Total	<u>19,396,697</u>	<u>276,546</u>	<u>(14,206)</u>

### (b) Analysed by credit risk-weighted amount

	30 June 2017	31 December 2016
Currency swaps	94,049	36,338
Foreign exchange forwards	29,992	33,375
Precious metal derivatives	16,029	365
Total	<u>140,070</u>	<u>70,078</u>

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In mainland China		
– Banks	4,020,050	15,244,894
– Other financial institutions	–	794,500
	<u>4,020,050</u>	<u>16,039,394</u>

#### (b) Analysed by type of security held

	30 June 2017	31 December 2016
Debt securities held under resale agreements	<u>4,020,050</u>	<u>16,039,394</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 19 LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

	30 June 2017	31 December 2016
Corporate loans and advances	259,447,618	223,598,360
Personal loans and advances		
– Residential mortgage	5,662,910	4,519,168
– Personal consumption loans	4,089,385	2,502,220
– Personal business loans	654,100	534,159
– Credit cards	529,321	523,837
– Others	79,470	81,030
Subtotal	11,015,186	8,160,414
Discounted bills	7,314,139	3,657,876
Gross loans and advances to customers	277,776,943	235,416,650
Less: Provision for impairment losses		
– Individually assessed	(1,605,887)	(2,053,429)
– Collectively assessed	(5,462,447)	(4,482,489)
Total provision for impairment losses	(7,068,334)	(6,535,918)
Net loans and advances to customers	270,708,609	228,880,732

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (b) Analysed by economic sector

	30 June 2017		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	90,288,704	33%	44,091,133
Renting and business activities	48,548,077	17%	23,595,711
Manufacturing	40,963,318	15%	9,565,495
Real estate	27,828,945	10%	25,702,745
Transportation, storage and postal services	9,810,695	4%	1,711,883
Construction	9,183,959	3%	5,388,559
Accommodation and catering	6,549,534	2%	5,739,570
Production and supply of electric power, gas and water	4,438,243	2%	1,682,663
Mining	2,988,900	1%	681,900
Household and other services	2,707,450	1%	1,053,450
Culture, sports and entertainment	2,538,686	1%	993,350
Agriculture, forestry, animal husbandry and fishery	2,361,069	1%	425,247
Public administration and social organisations	355,500	0%	355,500
Others	10,884,538	3%	2,684,819
Subtotal of corporate loans and advances	259,447,618	93%	123,672,025
Personal loans and advances	11,015,186	4%	9,245,796
Discounted bills	7,314,139	3%	7,314,139
Gross loans and advances to customers	277,776,943	100%	140,231,960

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (b) Analysed by economic sector (Continued)

	31 December 2016		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	73,940,527	31%	35,163,659
Manufacturing	36,474,375	15%	8,314,325
Renting and business activities	34,912,668	15%	19,866,758
Real estate	30,306,590	13%	27,881,390
Transportation, storage and postal services	9,880,743	4%	2,087,371
Construction	7,430,303	3%	4,719,306
Accommodation and catering	5,622,820	2%	5,014,470
Production and supply of electric power, gas and water	4,315,242	2%	1,645,252
Household and other services	3,045,395	1%	1,092,300
Culture, sports and entertainment	2,876,880	1%	1,005,750
Mining	2,183,200	1%	405,200
Agriculture, forestry, animal husbandry and fishery	2,098,825	1%	414,687
Public administration and social organisations	398,000	1%	398,000
Others	10,112,792	5%	2,683,681
Subtotal of corporate loans and advances	223,598,360	95%	110,692,149
Personal loans and advances	8,160,414	3%	6,784,441
Discounted bills	3,657,876	2%	3,657,876
Gross loans and advances to customers	<u>235,416,650</u>	<u>100%</u>	<u>121,134,466</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (c) Analysed by type of collateral

	30 June 2017	31 December 2016
Unsecured loans	18,318,727	20,750,551
Guaranteed loans	119,226,256	93,531,633
Loans secured by tangible assets other than monetary assets	105,491,619	101,776,176
Loans secured by intangible assets or monetary assets	<u>34,740,341</u>	<u>19,358,290</u>
Gross loans and advances to customers	<u>277,776,943</u>	<u>235,416,650</u>
Less: Provision for impairment losses		
– Individually assessed	(1,605,887)	(2,053,429)
– Collectively assessed	<u>(5,462,447)</u>	<u>(4,482,489)</u>
Total provision for impairment losses	<u>(7,068,334)</u>	<u>(6,535,918)</u>
Net loans and advances to customers	<u>270,708,609</u>	<u>228,880,732</u>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	30 June 2017				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	7,831	10,000	5,425	290	23,546
Guaranteed loans	640,683	365,183	2,270,190	23,529	3,299,585
Loans secured by tangible assets other than monetary assets	612,546	93,897	1,117,453	66,156	1,890,052
Loans secured by intangible assets or monetary assets	10,722	-	-	70,000	80,722
<b>Total</b>	<b>1,271,782</b>	<b>469,080</b>	<b>3,393,068</b>	<b>159,975</b>	<b>5,293,905</b>
As a percentage of gross loans and advances to customers	0.46%	0.17%	1.22%	0.06%	1.91%

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	31 December 2016				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	5,981	14,035	1,453	224	21,693
Guaranteed loans	1,055,942	2,437,907	100,060	18,789	3,612,698
Loans secured by tangible assets other than monetary assets	1,050,053	881,638	322,205	57,738	2,311,634
Loans secured by intangible assets or monetary assets	150,000	310	70,000	–	220,310
<b>Total</b>	<b>2,261,976</b>	<b>3,333,890</b>	<b>493,718</b>	<b>76,751</b>	<b>6,166,335</b>
As a percentage of gross loans and advances to customers	0.96%	1.42%	0.21%	0.03%	2.62%

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (e) Loans and advances and provision for impairment losses

	30 June 2017				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii)) for which provision are collectively assessed	for which provision are individually assessed	Total	
Gross loans and advances to customers	273,537,510	100,888	4,138,545	277,776,943	1.53%
Less: Provision for impairment losses	<u>(5,361,917)</u>	<u>(100,530)</u>	<u>(1,605,887)</u>	<u>(7,068,334)</u>	
Net loans and advances to customers	<u>268,175,593</u>	<u>358</u>	<u>2,532,658</u>	<u>270,708,609</u>	

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (e) Loans and advances and provision for impairment losses (Continued)

	31 December 2016				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances for which provision are collectively assessed (Note (ii))	Impaired loans and advances for which provision are individually assessed	Total	
Gross loans and advances to customers	231,310,329	108,079	3,998,242	235,416,650	1.74%
Less: Provision for impairment losses	<u>(4,379,900)</u>	<u>(102,589)</u>	<u>(2,053,429)</u>	<u>(6,535,918)</u>	
Net loans and advances to customers	<u>226,930,429</u>	<u>5,490</u>	<u>1,944,813</u>	<u>228,880,732</u>	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
- Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
  - Collectively, representing portfolios of homogeneous loans with individual insignificant amount (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 36(a).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Six months ended 30 June 2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed		
As at 1 January	4,379,900	102,589	2,053,429	6,535,918
Charge for the period	1,447,633	39,419	127,068	1,614,120
Release for the period	(465,616)	(41,501)	(523,429)	(1,030,546)
Unwinding of discount	–	–	(52,124)	(52,124)
Recoveries	–	23	943	966
As at 30 June	<u>5,361,917</u>	<u>100,530</u>	<u>1,605,887</u>	<u>7,068,334</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Provision for loans and advances which are collectively assessed	2016		Total
		Provision for impaired loans and advances which are collectively assessed	which are individually assessed	
As at 1 January	3,612,734	29,142	286,754	3,928,630
Charge for the year	1,418,847	86,892	2,000,914	3,506,653
Release for the year	(651,681)	(13,186)	(97,412)	(762,279)
Unwinding of discount	–	–	(43,380)	(43,380)
Write-offs	–	(281)	(97,297)	(97,578)
Recoveries	–	22	3,850	3,872
As at 31 December	<u>4,379,900</u>	<u>102,589</u>	<u>2,053,429</u>	<u>6,535,918</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (g) Analysed by credit quality

	30 June 2017	31 December 2016
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	272,359,188	229,137,993
– Overdue but not impaired	1,178,322	2,172,336
– Impaired	<u>4,239,433</u>	<u>4,106,321</u>
	<u>277,776,943</u>	<u>235,416,650</u>
Less: allowance for impairment losses		
– Neither overdue nor impaired	(5,291,164)	(4,249,634)
– Overdue but not impaired	(70,753)	(130,266)
– Impaired	<u>(1,706,417)</u>	<u>(2,156,018)</u>
	<u>(7,068,334)</u>	<u>(6,535,918)</u>
Net balance		
– Neither overdue nor impaired	267,068,024	224,888,359
– Overdue but not impaired	1,107,569	2,042,070
– Impaired	<u>2,533,016</u>	<u>1,950,303</u>
	<u>270,708,609</u>	<u>228,880,732</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS

	<i>Note</i>	30 June 2017	31 December 2016
Available-for-sale financial assets	20(a)	80,285,155	46,328,907
Held-to-maturity investments	20(b)	179,058,886	171,504,761
Loans and receivables	20(c)	<u>234,283,808</u>	<u>245,532,030</u>
Total		<u><u>493,627,849</u></u>	<u><u>463,365,698</u></u>

#### (a) Available-for-sale financial assets

	<i>Note</i>	30 June 2017	31 December 2016
Debt securities at fair value listed outside Hong Kong			
– Government		19,983,175	25,235,064
– Policy banks		16,987,952	13,740,574
– Banks and other financial institutions		33,095,194	404,796
– Corporate		<u>9,834,809</u>	<u>6,564,448</u>
Subtotal		79,901,130	45,944,882
Equity investments			
– Unlisted	20(a)(i)	<u>384,025</u>	<u>384,025</u>
Total		<u><u>80,285,155</u></u>	<u><u>46,328,907</u></u>



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 20 FINANCIAL INVESTMENTS (CONTINUED)

### (a) Available-for-sale financial assets (Continued)

The Bank reclassified debt securities amounting to RMB9.46 billion out of available-for-sale to held-to-maturity investments during the year ended 31 December 2016, and as at the reclassification date, the estimated amount of cash flows the Group expected to recover was RMB10.44 billion. As at 30 June 2017, the carrying amount of the above debt securities was RMB9.46 billion (31 December 2016: RMB9.46 billion), and the fair value was RMB9.12 billion (31 December 2016: RMB9.29 billion). Except for the above, the Group and the Bank did not reclassify any other financial investments in and out from available-for-sale category for the six months ended 30 June 2017 and for the year ended 31 December 2016.

*Note:*

- (i) There is no active market for certain available-for-sale unlisted equity investments and it is the Group's intention to dispose of them as opportunities arise.

### (b) Held-to-maturity investments

	30 June 2017	31 December 2016
Listed outside Hong Kong		
– Government	83,395,876	75,012,016
– Policy banks	76,873,187	65,800,264
– Banks and other financial institutions	17,894,850	29,766,124
– Corporate	894,973	926,357
	<u>179,058,886</u>	<u>171,504,761</u>
Total	<u>179,058,886</u>	<u>171,504,761</u>
Fair value of listed securities	<u>175,792,355</u>	<u>170,708,662</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS (CONTINUED)

#### (c) Loans and receivables

	Note	30 June 2017	31 December 2016
Investment management products managed by securities companies		155,224,599	156,798,192
Investment management products under trust scheme		75,164,209	69,940,838
Wealth management products issued by financial institutions		<u>5,200,000</u>	<u>20,072,000</u>
Subtotal	20(c)(i)	235,588,808	246,811,030
Less: Provisions for loans and receivables		<u>(1,305,000)</u>	<u>(1,279,000)</u>
Total		<u><u>234,283,808</u></u>	<u><u>245,532,030</u></u>

#### (i) Analysed by credit risk-bearing party

	30 June 2017	31 December 2016
Loans and receivables		
– Banks and other financial institutions	129,379,099	156,796,192
– Corporate	101,079,709	89,014,838
– Government	<u>5,130,000</u>	<u>1,000,000</u>
Total	<u><u>235,588,808</u></u>	<u><u>246,811,030</u></u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 21 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
<b>Cost</b>						
As at 1 January 2016	2,946,873	530,859	1,851,272	548,733	97,398	5,975,135
Additions	121,387	42,496	571,327	116,583	1,456	853,249
CIP transfers	495,529	58,988	(554,517)	–	–	–
Disposals	–	–	–	(2,114)	(600)	(2,714)
As at 31 December 2016 and 1 January 2017	<u>3,563,789</u>	<u>632,343</u>	<u>1,868,082</u>	<u>663,202</u>	<u>98,254</u>	<u>6,825,670</u>
Additions	3,864	28,870	264,745	17,726	1,250	316,455
CIP transfers	682	29,340	(30,022)	–	–	–
As at 30 June 2017	<u>3,568,335</u>	<u>690,553</u>	<u>2,102,805</u>	<u>680,928</u>	<u>99,504</u>	<u>7,142,125</u>
<b>Accumulated depreciation</b>						
As at 1 January 2016	(973,981)	(319,741)	–	(337,306)	(75,573)	(1,706,601)
Additions	(147,224)	(60,322)	–	(95,506)	(9,707)	(312,759)
Disposals	–	–	–	1,687	582	2,269
As at 31 December 2016 and 1 January 2017	<u>(1,121,205)</u>	<u>(380,063)</u>	<u>–</u>	<u>(431,125)</u>	<u>(84,698)</u>	<u>(2,017,091)</u>
Additions	(85,525)	(37,358)	–	(46,469)	(2,642)	(171,994)
As at 30 June 2017	<u>(1,206,730)</u>	<u>(417,421)</u>	<u>–</u>	<u>(477,594)</u>	<u>(87,340)</u>	<u>(2,189,085)</u>
<b>Net book value</b>						
As at 31 December 2016	<u>2,442,584</u>	<u>252,280</u>	<u>1,868,082</u>	<u>232,077</u>	<u>13,556</u>	<u>4,808,579</u>
As at 30 June 2017	<u>2,361,605</u>	<u>273,132</u>	<u>2,102,805</u>	<u>203,334</u>	<u>12,164</u>	<u>4,953,040</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 22 DEFERRED INCOME TAX ASSETS AND LIABILITIES

#### (a) Analysed by nature

	30 June 2017		31 December 2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	5,763,950	1,440,987	5,673,171	1,418,292
Change in fair value of derivative financial instruments	409,703	102,426	–	–
Change in fair value of available-for-sale financial assets	125,747	31,437	122,725	30,681
Supplementary retirement benefits	104,318	26,080	110,946	27,737
	<u>6,403,718</u>	<u>1,600,930</u>	<u>5,906,842</u>	<u>1,476,710</u>
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	–	–	(262,340)	(65,585)
	<u>–</u>	<u>–</u>	<u>(262,340)</u>	<u>(65,585)</u>
Net deferred income tax	<u>6,403,718</u>	<u>1,600,930</u>	<u>5,644,502</u>	<u>1,411,125</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

#### (b) Analysed by movement

	At 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2017
Deferred income tax assets:				
Allowance for impairment losses	1,418,292	22,695	–	1,440,987
Change in fair value of derivative financial instruments	–	102,426	–	102,426
Change in fair value of available- for-sale financial assets	30,681	–	756	31,437
Supplementary retirement benefits	27,737	(1,659)	2	26,080
Subtotal	<u>1,476,710</u>	<u>123,462</u>	<u>758</u>	<u>1,600,930</u>
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	<u>(65,585)</u>	<u>65,585</u>	<u>–</u>	<u>–</u>
Subtotal	<u>(65,585)</u>	<u>65,585</u>	<u>–</u>	<u>–</u>
Net deferred income tax	<u>1,411,125</u>	<u>189,047</u>	<u>758</u>	<u>1,600,930</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

#### (b) Analysed by movement (Continued)

	At 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Allowance for impairment losses	641,377	776,915	–	1,418,292
Change in fair value of available- for-sale financial assets	–	–	30,681	30,681
Supplementary retirement benefits	31,527	(3,904)	114	27,737
Subtotal	672,904	773,011	30,795	1,476,710
Deferred income tax liabilities:				
Change in fair value of available- for-sale financial assets	(207,721)	–	207,721	–
Change in fair value of financial assets at fair value through profit or loss	(294)	294	–	–
Change in fair value of derivative financial instruments	–	(65,585)	–	(65,585)
Subtotal	(208,015)	(65,291)	207,721	(65,585)
Net deferred income tax	464,889	707,720	238,516	1,411,125

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 23 OTHER ASSETS

	<i>Note</i>	30 June 2017	31 December 2016
Interest receivable	23(a)	6,488,446	6,457,270
Prepayments		163,564	119,848
Repossessed assets	23(b)	136,733	136,733
Settlement and clearing accounts		126,112	20,699
Intangible assets	23(c)	90,155	91,496
Land use rights		62,367	63,549
Long-term deferred expenses		6,299	7,632
Others	23(d)	457,838	499,699
Total		<u>7,531,514</u>	<u>7,396,926</u>

#### (a) Interest receivable

	30 June 2017	31 December 2016
Interest receivable arising from:		
– Investments	5,075,062	5,256,338
– Loans and advances to customers	814,790	607,393
– Deposits with banks and other financial institutions	555,056	578,196
– Others	43,538	15,343
Total	<u>6,488,446</u>	<u>6,457,270</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 23 OTHER ASSETS (CONTINUED)

#### (b) Repossessed assets

	30 June 2017	31 December 2016
Land use rights and buildings	136,733	136,733
Less: Impairment allowance	—	—
	<u>136,733</u>	<u>136,733</u>

#### (c) Intangible assets

	30 June 2017	31 December 2016
<b>Cost</b>		
As at 1 January	163,432	122,764
Additions	<u>5,305</u>	<u>40,668</u>
As at 30 June/31 December	<u>168,737</u>	<u>163,432</u>
<b>Accumulated amortisation</b>		
As at 1 January	(71,936)	(61,555)
Additions	<u>(6,646)</u>	<u>(10,381)</u>
As at 30 June/31 December	<u>(78,582)</u>	<u>(71,936)</u>
<b>Net value</b>		
As at 1 January	<u>91,496</u>	<u>61,209</u>
As at 30 June/31 December	<u>90,155</u>	<u>91,496</u>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 23 OTHER ASSETS (CONTINUED)

#### (d) Others

	30 June 2017	31 December 2016
Receivable due from disposal of non-performing assets (Note (i))	653,754	726,124
Others	<u>153,772</u>	<u>129,000</u>
Subtotal	807,526	855,124
Less: Impairment allowance	<u>(349,688)</u>	<u>(355,425)</u>
	<u><u>457,838</u></u>	<u><u>499,699</u></u>

*Note:*

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

### 24 BORROWINGS FROM CENTRAL BANK

	30 June 2017	31 December 2016
Borrowings (Note (a))	<u><u>70,500,000</u></u>	<u><u>118,800,000</u></u>

*Note:*

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Deposits in mainland China		
– Banks	22,917,755	26,539,036
– Other financial institutions	<u>115,303,140</u>	<u>116,839,494</u>
Total	<u><u>138,220,895</u></u>	<u><u>143,378,530</u></u>

### 26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Placements in mainland China		
– Banks	<u><u>31,098,801</u></u>	<u><u>38,940,901</u></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In mainland China		
– Banks	46,216,174	33,171,221
– Other financial institutions	997,500	7,114,370
Total	<u>47,213,674</u>	<u>40,285,591</u>

#### (b) Analysed by type of security held

	30 June 2017	31 December 2016
Debt securities sold under repurchase agreements	44,171,500	39,973,070
Bills sold under repurchase agreements	3,042,174	312,521
Total	<u>47,213,674</u>	<u>40,285,591</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 28 DEPOSITS FROM CUSTOMERS

	30 June 2017	31 December 2016
Demand deposits		
– Corporate deposits	83,324,924	74,575,104
– Personal deposits	<u>15,174,601</u>	<u>14,398,743</u>
Subtotal	<u>98,499,525</u>	<u>88,973,847</u>
Time deposits		
– Corporate deposits	179,187,196	165,133,167
– Personal deposits	<u>123,199,607</u>	<u>111,842,098</u>
Subtotal	<u>302,386,803</u>	<u>276,975,265</u>
Pledged deposits		
– Acceptances	40,885,357	47,520,550
– Letters of credit	752,982	1,024,603
– Letters of guarantees	365,044	338,867
– Others	<u>396,567</u>	<u>298,208</u>
Subtotal	<u>42,399,950</u>	<u>49,182,228</u>
Inward and outward remittances	<u>171,155</u>	<u>114,819</u>
Total deposits from customers at amortised cost	<u>443,457,433</u>	<u>415,246,159</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 29 DEBT SECURITIES ISSUED

	<i>Note</i>	30 June 2017	31 December 2016
Tier two capital fixed rate debts maturing in May 2024	29(a)	2,200,000	2,200,000
Tier two capital fixed rate debts maturing in December 2025	29(b)	10,000,000	10,000,000
Financial fixed rate bonds maturing in August 2019	29(c)	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	29(d)	2,000,000	2,000,000
Certificates of interbank deposit	29(e)	<u>115,086,716</u>	<u>68,089,181</u>
<b>Total</b>		<b><u>134,286,716</u></b>	<b><u>87,289,181</u></b>

*Notes:*

- (a) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Financial fixed rate bonds of RMB5.0 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.
- (d) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (e) As at 30 June 2017, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB114,002 million (31 December 2016: RMB67,110 million).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 30 OTHER LIABILITIES

	Note	30 Jun 2017	31 December 2016
Interest payable	30(a)	13,636,994	11,653,951
Financial liability related to precious metal		6,288,633	143,745
Payment and collection clearance accounts		1,885,996	749,009
Dividend payable		1,517,616	186,572
Taxes payable	30(b)	462,023	490,903
Accrued staff cost	30(c)	428,695	427,419
Deferred income		117,505	161,173
Dormant accounts		36,720	37,987
Others		254,746	279,897
Total		24,628,928	14,130,656

#### (a) Interest payable

	30 June 2017	31 December 2016
Interest payable arising from:		
– Deposits from customers	9,616,657	8,748,356
– Deposits from banks and other financial institutions	2,196,090	1,731,179
– Borrowings from central bank	1,216,051	929,211
– Debt securities issued	477,855	204,866
– Placements from banks and other financial institutions	98,572	31,491
– Financial assets sold underrepurchase agreements	11,199	8,191
– Others	20,570	657
Total	13,636,994	11,653,951

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 30 OTHER LIABILITIES (CONTINUED)

### (b) Taxes payable

	30 June 2017	31 December 2016
Value-added tax and surcharges payable	448,926	457,384
Business tax and surcharges payable	–	16,971
Others	13,097	16,548
Total	<u>462,023</u>	<u>490,903</u>

### (c) Accrued staff cost

	<i>Note</i>	30 Jun 2017	31 December 2016
Salary, bonuses and allowances payable		172,648	202,613
Pension and annuity payable	30(c)(i)	61,572	73,612
Supplementary retirement benefits payable	30(c)(ii)	104,318	110,946
Housing allowances payable		29,870	29,857
Other social insurance payable		50,617	1,965
Others		9,670	8,426
Total		<u>428,695</u>	<u>427,419</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 30 OTHER LIABILITIES (CONTINUED)

#### (c) Accrued staff cost (Continued)

##### (i) *Pension and annuity*

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

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

##### (ii) *Supplementary retirement benefits*

###### *Early retirement plan*

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

###### *Supplementary retirement plan*

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 31 SHARE CAPITAL

### Issued share capital

	30 June 2017	31 December 2016
Number of shares, issued and fully paid at par value (in thousands)	5,796,680	5,796,680

## 32 RESERVES

### (a) Capital reserve

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

### (b) Surplus reserve

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 32 RESERVES (CONTINUED)

### (c) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2017.

## 33 PROFIT DISTRIBUTION

(a) In accordance with the resolution of the Bank’s 2016 Annual General Meeting held on 16 May 2017, the shareholders approved the following profit distribution plan for the year ended 31 December 2016 is as follows:

- Appropriated RMB152.51 million to the statutory surplus reserve fund, the statutory surplus reserve fund balance reached 50% of its registered capital on 31 December 2016;
- Appropriated RMB685.53 million to the discretionary surplus reserve fund;
- Appropriated RMB1,763.35 million to the general reserve;
- Declared cash dividends of RMB2.50 per ten shares before tax and in aggregation of RMB1,449.17 million to all shareholders.

(b) In accordance with the resolution of the Bank’s 2015 Annual General Meeting held on 13 June 2016, the shareholders approved the following profit distribution plan for the year ended 31 December 2015 is as follows:

- Appropriated 10% of the profit after tax to the statutory surplus reserve fund;
- Appropriated RMB620.62 million to the discretionary surplus reserve fund;
- Appropriated RMB3,090.36 million to the general reserve;
- Declared cash dividends of RMB2.80 per ten shares before tax and in aggregation of RMB1,623.07 million to all shareholders.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	30 June 2017	30 June 2016
Cash on hand	685,711	652,862
Deposits with central bank other than restricted deposits	23,768,013	22,131,380
Deposits with banks and other financial institutions with original maturity of three months or less	33,218,923	38,380,331
Placements with banks and other financial institutions with original maturity of three months or less	7,752,720	5,529,432
Financial assets held under resale agreements with original maturity of three months or less	4,020,050	2,603,500
Total	<u>69,445,417</u>	<u>69,297,505</u>

## 35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Relationship of significant related parties

#### *Major shareholders*

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

#### (a) Relationship of significant related parties (Continued)

##### *Major shareholders (Continued)*

Share percentage in the Bank:

	30 June 2017	31 December 2016
Evergrande Group (Nanchang) Co., Ltd.	17.28%	17.28%
Luck Extreme Limited	9.96%	–
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Shenyang Zhongyou Tipo (Group) Machinery & Equipment manufacturing Co., Ltd.	3.28%	3.28%
Great Captain Limited	–	9.96%

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

### (b) Related party transactions and balances

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

#### (i) *Between the Bank and major shareholders*

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Deposits from customers	18,227	68,147
Guarantees received	2,099,900	1,899,900
	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	–	–
Interest expense	86	335
Fee and commission income	–	–



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

#### (b) Related party transactions and balances (Continued)

##### (iii) *Between the Bank and other related parties (Continued)*

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	137,133	51,824
Interest expense	3,948	7,817
Fee and commission income	48	131

#### (c) Key management personnel

##### (i) *Key management personnel remuneration*

	Six months ended 30 June	
	2017	2016
Salaries and other emoluments	7,924	8,491
Discretionary bonuses	11,471	13,420
Contributions to pension schemes	806	869
Total	<u>20,201</u>	<u>22,780</u>

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

At 30 June 2017 and 31 December 2016, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

#### (c) Key management personnel (Continued)

##### (iii) Between the Bank and key management personnel

	30 June 2017	31 December 2016
Balances at the end of the period/year: Deposits from customers	1,961	17,141
	Six months ended 30 June 2017	2016
Transactions during the period: Interest expense	15	357

### 36 RISK MANAGEMENT

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

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

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

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

### (a) Credit risk

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

#### ***Credit business***

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

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### ***Credit business (Continued)***

The core definitions of the five categories of loans and advances are set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
- Special mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
- Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
- Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

#### ***Treasury Business***

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(a) Credit risk (Continued)**

#### *Treasury Business (Continued)*

##### *(i) Maximum credit risk exposure*

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

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

The credit risk in respect of loans and advances to customers as at the end of the reporting period is disclosed in Note 19.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Treasury Business (Continued)*

#### *(iii) Amounts due from banks and other financial institutions*

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

	30 June 2017	31 December 2016
<b>Carrying amount</b>		
Neither overdue nor impaired		
– Grade A to AAA	64,111,356	91,191,322
– Grade B to BBB	19,687,543	36,142,125
– Grade C to CCC	43,564	7,557
– Unrated	4,290	626,290
	<hr/>	<hr/>
Total	83,846,753	127,967,294
	<hr/>	<hr/>

#### *(iv) Debt securities investments*

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Treasury Business (Continued)*

#### *(iv) Debt securities investments (Continued)*

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

	30 June 2017	31 December 2016
<b>Carrying amount</b>		
Neither overdue nor impaired		
– Government	108,509,051	100,247,080
– Policy banks	93,861,139	79,540,838
– Banks and other financial institutions	180,369,143	186,967,113
– Corporate	<u>110,504,491</u>	<u>96,226,642</u>
Total	<u><u>493,243,824</u></u>	<u><u>462,981,673</u></u>

### (b) Market risk

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(b) Market risk (Continued)**

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control Committee to supervise the market risk management conducted by the senior management. The Financial Market Operation Centre and the International Business Department of the Bank are responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines. The Planning and Accounting Management Department provides various data on market risks and other technical support to the Financial Market Operation Centre and the International Business Department. The Risk Control Centre is responsible for overall market risk management.

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

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

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

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(b) Market risk (Continued)**

#### **(i) Interest rate risk**

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

##### **(1) Repricing risk**

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

The Financial Market Operation Centre and the Planning and Accounting Management Department is responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

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

	30 June 2017					
	Total	Non-interest bearing	Less than	Between	Between one	More than
			three months (inclusive)	three months and one year (inclusive)	year and five years (inclusive)	
<b>Assets</b>						
Cash and deposits with central bank	76,310,317	1,340,760	74,969,557	-	-	-
Deposits with banks and other financial institutions	67,757,823	-	45,655,323	22,102,500	-	-
Placements with banks and other financial institutions	12,068,880	-	9,865,648	2,203,232	-	-
Financial assets held under resale agreements	4,020,050	-	4,020,050	-	-	-
Loans and advances to customers (Note (i))	270,708,609	-	211,903,733	41,449,445	13,858,790	3,496,641
Financial investments (Note (ii))	493,627,849	384,025	105,839,783	199,881,823	142,695,953	44,826,265
Others	14,217,582	14,085,484	132,098	-	-	-
<b>Total assets</b>	<b>938,711,110</b>	<b>15,810,269</b>	<b>452,386,192</b>	<b>265,637,000</b>	<b>156,554,743</b>	<b>48,322,906</b>



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	30 June 2017					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Liabilities</b>						
Borrowings from central bank	(70,500,000)	-	(19,000,000)	(51,500,000)	-	-
Deposits from banks and other financial institutions	(138,220,895)	-	(78,282,267)	(55,425,628)	(4,513,000)	-
Placements from banks and other financial institutions	(31,098,801)	-	(23,050,537)	(8,048,264)	-	-
Financial assets sold under repurchase agreements	(47,213,674)	-	(44,722,043)	(2,491,631)	-	-
Deposits from customers	(443,457,433)	-	(152,512,094)	(108,759,636)	(181,160,676)	(1,025,027)
Debt securities issued	(134,286,716)	-	(90,557,564)	(24,529,152)	(7,000,000)	(12,200,000)
Others	(25,506,211)	(24,964,410)	(541,801)	-	-	-
<b>Total liabilities</b>	<b>(890,283,730)</b>	<b>(24,964,410)</b>	<b>(408,666,306)</b>	<b>(250,754,311)</b>	<b>(192,673,676)</b>	<b>(13,225,027)</b>
<b>Asset-liability gap</b>	<b>48,427,380</b>	<b>(9,154,141)</b>	<b>43,719,886</b>	<b>14,882,689</b>	<b>(36,118,933)</b>	<b>35,097,879</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Assets</b>						
Cash and deposits with central bank	71,375,747	642,182	70,733,565	-	-	-
Deposits with banks and other financial institutions	90,789,790	-	51,096,390	39,693,400	-	-
Placements with banks and other financial institutions	21,138,110	-	19,430,000	1,708,110	-	-
Financial assets held under resale agreements	16,039,394	-	16,039,394	-	-	-
Loans and advances to customers (Note (i))	228,880,732	-	193,012,576	23,217,934	9,971,581	2,678,641
Financial investments (Note (ii))	463,365,698	384,025	88,592,720	204,850,477	133,703,044	35,835,432
Others	13,893,176	13,893,176	-	-	-	-
<b>Total assets</b>	<b>905,482,647</b>	<b>14,919,383</b>	<b>438,904,645</b>	<b>269,469,921</b>	<b>143,674,625</b>	<b>38,514,073</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Liabilities</b>						
Borrowings from central bank	(118,800,000)	-	(59,000,000)	(59,800,000)	-	-
Deposits from banks and other financial institutions	(143,378,530)	-	(67,978,758)	(69,886,772)	(5,513,000)	-
Placements from banks and other financial institutions	(38,940,901)	-	(36,529,256)	(2,411,645)	-	-
Financial assets sold under repurchase agreements	(40,285,591)	-	(40,028,567)	(257,024)	-	-
Deposits from customers	(415,246,159)	-	(155,065,012)	(100,898,876)	(154,082,246)	(5,200,025)
Debt securities issued	(87,289,181)	-	(38,569,472)	(29,519,709)	(7,000,000)	(12,200,000)
Others	(15,167,659)	(15,167,659)	-	-	-	-
<b>Total liabilities</b>	<b>(859,108,021)</b>	<b>(15,167,659)</b>	<b>(397,171,065)</b>	<b>(262,774,026)</b>	<b>(166,595,246)</b>	<b>(17,400,025)</b>
<b>Asset-liability gap</b>	<b>46,374,626</b>	<b>(248,276)</b>	<b>41,733,580</b>	<b>6,695,895</b>	<b>(22,920,621)</b>	<b>21,114,048</b>

*Notes:*

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 30 June 2017 included overdue amounts (net of provision for impairment losses) of RMB1,175 million (31 December 2016: RMB2,134 million).
- (ii) Financial investments included available-for-sale financial assets, held-to-maturity investments and loans and receivables.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (2) Interest rate sensitivity analysis

	30 June 2017	31 December 2016
Change in profit after taxation	Increase /(decrease)	Increase /(decrease)
Up 100 bps parallel shift in yield curves	(42,805)	178,702
Down 100 bps parallel shift in yield curves	42,805	(178,702)

	30 June 2017	31 December 2016
Change in profit after taxation	Increase /(decrease)	Increase /(decrease)
Up 100 bps parallel shift in yield curves	(531,869)	(127,828)
Down 100 bps parallel shift in yield curves	550,714	137,426

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

- Interest rate movements apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (i) Interest rate risk (Continued)

##### (2) Interest rate sensitivity analysis (Continued)

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

#### (ii) Currency risk

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (ii) Currency risk (Continued)

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

	RMB	30 June 2017		Total (RMB equivalent)
		USD (RMB equivalent)	Others (RMB equivalent)	
<b>Assets</b>				
Cash and deposits with central bank	75,540,550	750,654	19,113	76,310,317
Deposits with banks and other financial institutions	66,508,713	797,460	451,650	67,757,823
Placements with banks and other financial institutions	10,714,000	1,354,880	–	12,068,880
Financial assets held under resale agreements	4,020,050	–	–	4,020,050
Loans and advances to customers	268,412,317	1,882,055	414,237	270,708,609
Financial investments (Note (i))	491,730,529	1,897,320	–	493,627,849
Others	14,042,205	15,050	160,327	14,217,582
<b>Total assets</b>	<b>930,968,364</b>	<b>6,697,419</b>	<b>1,045,327</b>	<b>938,711,110</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (ii) Currency risk (Continued)

	30 June 2017			
	RMB	USD <i>(RMB equivalent)</i>	Others <i>(RMB equivalent)</i>	Total <i>(RMB equivalent)</i>
<b>Liabilities</b>				
Borrowings from central bank	(70,500,000)	–	–	(70,500,000)
Deposits from banks and other financial institutions	(133,911,886)	(4,215,001)	(94,008)	(138,220,895)
Placements from banks and other financial institutions	(4,650,000)	(26,199,111)	(249,690)	(31,098,801)
Financial assets sold under repurchase agreements	(47,213,674)	–	–	(47,213,674)
Deposits from customers	(441,904,760)	(1,351,442)	(201,231)	(443,457,433)
Debt securities issued	(134,286,716)	–	–	(134,286,716)
Others	(24,819,548)	(215,167)	(471,496)	(25,506,211)
<b>Total liabilities</b>	<u>(857,286,584)</u>	<u>(31,980,721)</u>	<u>(1,016,425)</u>	<u>(890,283,730)</u>
<b>Net position</b>	<u>73,681,780</u>	<u>(25,283,302)</u>	<u>28,902</u>	<u>48,427,380</u>
<b>Off-balance sheet credit commitments</b>	<u>150,956,526</u>	<u>2,254,026</u>	<u>1,286,498</u>	<u>154,497,050</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (ii) Currency risk (Continued)

	31 December 2016			
	RMB	USD	Others	Total
	(RMB equivalent)	(RMB equivalent)	(RMB equivalent)	(RMB equivalent)
<b>Assets</b>				
Cash and deposits with central bank	71,295,617	59,993	20,137	71,375,747
Deposits with banks and other financial institutions	77,204,773	13,503,704	81,313	90,789,790
Placements with banks and other financial institutions	20,930,000	208,110	–	21,138,110
Financial assets held under resale agreements	16,039,394	–	–	16,039,394
Loans and advances to customers	225,292,115	2,681,455	907,162	228,880,732
Financial investments ( <i>Note (i)</i> )	461,422,846	1,942,852	–	463,365,698
Others	13,863,557	19,922	9,697	13,893,176
Total assets	886,048,302	18,416,036	1,018,309	905,482,647



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (ii) Currency risk (Continued)

	31 December 2016			
	RMB	USD <i>(RMB equivalent)</i>	Others <i>(RMB equivalent)</i>	Total <i>(RMB equivalent)</i>
<b>Liabilities</b>				
Borrowings from central bank	(118,800,000)	–	–	(118,800,000)
Deposits from banks and other financial institutions	(139,715,062)	(2,988,914)	(674,554)	(143,378,530)
Placements from banks and other financial institutions	(14,204,500)	(24,494,547)	(241,854)	(38,940,901)
Financial assets sold under repurchase agreements	(40,285,591)	–	–	(40,285,591)
Deposits from customers	(414,146,557)	(906,884)	(192,718)	(415,246,159)
Debt securities issued	(87,289,181)	–	–	(87,289,181)
Others	<u>(15,037,737)</u>	<u>(111,233)</u>	<u>(18,689)</u>	<u>(15,167,659)</u>
Total liabilities	<u>(829,478,628)</u>	<u>(28,501,578)</u>	<u>(1,127,815)</u>	<u>(859,108,021)</u>
Net position	<u>56,569,674</u>	<u>(10,085,542)</u>	<u>(109,506)</u>	<u>46,374,626</u>
Off-balance sheet credit commitments	<u>150,579,755</u>	<u>2,796,033</u>	<u>1,212,835</u>	<u>154,588,623</u>

*Note:*

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

### 36 RISK MANAGEMENT (CONTINUED)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

	30 June 2017 Increase /(decrease)	31 December 2016 Increase /(decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	(27,959)	(11,022)
Down 100 bps change of foreign exchange rate	27,959	11,022

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (ii) Currency risk (Continued)

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

### (c) Liquidity risk

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

The Group has implemented the centralised management of the bank-wide liquidity risk by the head office, and established the liquidity risk management framework which mainly comprises the Assets and Liabilities Management Committee, the Risk Control Centre and the Planning and Accounting Management Department at the head office. The responsibilities of them are as following:

- the Assets and Liabilities Management Committee is the decision-making body for liquidity risk management and is responsible for formulating the guidelines and policies for liquidity risk management;
- the Risk Control Centre is the liquidity risk management department and is responsible for formulating, implementing and evaluating relevant systems, setting the bank-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; and
- the Planning and Accounting Management Department is the implementation department for liquidity risk management and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators, regularly carrying out risk analysis and reporting to the Risk Control Centre and the Assets and Liabilities Management Committee.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(c) Liquidity risk (Continued)**

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, inter-bank loan to saving ratio and liquidity gap ratio. Meanwhile, the Group forecasts the liquidity of each branch on a periodic basis. The Group conducts liquidity analysis on a monthly basis, performs stress testing on liquidity risk on a quarterly basis.

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (i) Maturity analysis

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

	30 June 2017							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	51,201,544	24,453,724	-	-	655,049	-	-	76,310,317
Deposit with banks and other financial institutions	-	1,727,923	32,020,900	11,906,500	22,102,500	-	-	67,757,823
Placement with banks and other financial institutions	-	-	7,752,720	2,112,928	2,203,232	-	-	12,068,880
Financial assets held under resale agreements	-	-	4,020,050	-	-	-	-	4,020,050
Loans and advances to customers	2,767,835	872,750	15,202,788	20,371,653	127,879,840	89,244,320	14,369,423	270,708,609
Financial investments (Note (i))	4,419,620	1,683,114	16,448,599	49,852,114	197,104,589	178,004,065	46,115,748	493,627,849
Others	7,030,422	20,823	1,537,407	1,664,820	3,910,816	53,294	-	14,217,582
<b>Total assets</b>	<b>65,419,421</b>	<b>28,758,334</b>	<b>76,982,464</b>	<b>85,908,015</b>	<b>353,856,026</b>	<b>267,301,679</b>	<b>60,485,171</b>	<b>938,711,110</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (i) Maturity analysis (Continued)

	30 June 2017							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Liabilities</b>								
Borrowings from the central bank	-	-	(7,000,000)	(12,000,000)	(51,500,000)	-	-	(70,500,000)
Deposits from banks and other financial institutions	-	(2,769,142)	(30,013,940)	(45,499,185)	(55,425,628)	(4,513,000)	-	(138,220,895)
Placements from banks and other financial institutions	-	-	(17,188,451)	(5,862,086)	(8,048,264)	-	-	(31,098,801)
Financial assets sold under repurchase agreements	-	-	(44,251,786)	(470,257)	(2,491,631)	-	-	(47,213,674)
Deposits from customers	-	(103,621,556)	(15,278,936)	(33,611,602)	(108,759,636)	(181,160,676)	(1,025,027)	(443,457,433)
Debt securities issued	-	-	(25,638,349)	(61,919,215)	(24,529,152)	(10,000,000)	(12,200,000)	(134,286,716)
Others	-	(3,410,684)	(3,058,856)	(8,631,599)	(6,276,826)	(4,001,686)	(126,560)	(25,506,211)
<b>Total liabilities</b>	-	<u>(109,801,382)</u>	<u>(142,430,318)</u>	<u>(167,993,944)</u>	<u>(257,031,137)</u>	<u>(199,675,362)</u>	<u>(13,351,587)</u>	<u>(890,283,730)</u>
Long/(short) position	<u>65,419,421</u>	<u>(81,043,048)</u>	<u>(65,447,854)</u>	<u>(82,085,929)</u>	<u>96,824,889</u>	<u>67,626,317</u>	<u>47,133,584</u>	<u>48,427,380</u>
Notional amount of derivatives	-	-	16,874,318	8,367,405	22,978,530	-	-	48,220,253

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (i) Maturity analysis (Continued)

	31 December 2016							Total
	Indefinite <i>(Note (ii))</i>	Repayable on demand <i>(Note (ii))</i>	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	49,897,913	21,477,834	-	-	-	-	-	71,375,747
Deposit with banks and other financial institutions	-	13,860,390	12,323,000	24,913,000	39,693,400	-	-	90,789,790
Placement with banks and other financial institutions	-	-	18,430,000	1,000,000	1,708,110	-	-	21,138,110
Financial assets held under resale agreements	-	-	16,039,394	-	-	-	-	16,039,394
Loans and advances to customers	2,929,533	1,067,845	9,528,558	15,038,515	103,244,460	85,744,428	11,327,393	228,880,732
Financial investments (Note (i))	384,025	-	34,497,338	48,647,691	202,460,809	140,434,816	36,941,019	463,365,698
Others	6,643,244	101,939	1,547,966	1,502,765	4,081,340	15,922	-	13,893,176
<b>Total assets</b>	<u>59,854,715</u>	<u>36,508,008</u>	<u>92,366,256</u>	<u>91,101,971</u>	<u>351,188,119</u>	<u>226,195,166</u>	<u>48,268,412</u>	<u>905,482,647</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (i) Maturity analysis (Continued)

	31 December 2016							Total
	Repayable on Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Liabilities</b>								
Borrowings from the central bank	-	-	(53,000,000)	(6,000,000)	(59,800,000)	-	-	(118,800,000)
Deposits from banks and other financial institutions	-	(10,913,786)	(15,467,820)	(41,597,152)	(69,886,772)	(5,513,000)	-	(143,378,530)
Placements from banks and other financial institutions	-	-	(30,851,170)	(5,678,086)	(2,411,645)	-	-	(38,940,901)
Financial assets sold under repurchase agreements	-	-	(39,973,070)	(55,497)	(257,024)	-	-	(40,285,591)
Deposits from customers	-	(100,955,502)	(31,667,707)	(22,441,803)	(100,898,876)	(154,082,246)	(5,200,025)	(415,246,159)
Debt securities issued	-	-	(15,222,964)	(20,346,508)	(29,519,709)	(10,000,000)	(12,200,000)	(87,289,181)
Others	-	(3,828,923)	(2,061,977)	(1,621,260)	(4,119,550)	(3,315,348)	(220,601)	(15,167,659)
Total liabilities	-	(115,698,211)	(188,244,708)	(97,740,306)	(266,893,576)	(172,910,594)	(17,620,626)	(859,108,021)
Long/(short) position	59,854,715	(79,190,203)	(95,878,452)	(6,638,335)	84,294,543	53,284,572	30,647,786	46,374,626
Notional amount of derivatives	-	-	3,665,110	7,132,970	8,598,617	-	-	19,396,697



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(c) Liquidity risk (Continued)**

#### **(i) Maturity analysis (Continued)**

*Notes:*

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in “repayable on demand”.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 36 RISK MANAGEMENT (CONTINUED)

#### (c) Liquidity risk (Continued)

##### (ii) Analysis on contractual undiscounted cash flows of financial liabilities

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

	30 June 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(72,551,314)	(7,104,397)	(12,366,000)	(53,080,917)	-	-
Deposits from banks and other financial institutions	(140,739,696)	(33,116,011)	(46,137,955)	(56,900,548)	(4,585,182)	-
Placements from banks and other financial institutions	(31,334,322)	(17,230,696)	(5,907,856)	(8,195,770)	-	-
Financial assets sold under repurchase agreements	(47,286,559)	(44,263,474)	(472,098)	(2,550,987)	-	-
Deposits from customers	(460,705,831)	(118,908,890)	(34,748,288)	(109,672,789)	(196,350,824)	(1,025,040)
Debt securities issued	(141,138,680)	(25,700,000)	(62,565,960)	(25,517,000)	(12,919,840)	(14,435,880)
Other financial liabilities	<u>(10,101,217)</u>	<u>(1,922,716)</u>	<u>(6,660,884)</u>	<u>(1,517,617)</u>	<u>-</u>	<u>-</u>
Total non-derivative financial liabilities	<u>(903,857,619)</u>	<u>(248,246,184)</u>	<u>(168,859,041)</u>	<u>(257,435,628)</u>	<u>(213,855,846)</u>	<u>(15,460,920)</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (ii) Analysis on contractual undiscounted cash flows of financial liabilities (Continued)

	Contractual undiscounted cash flow	Within one month (inclusive)	31 December 2016			
			Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(121,093,995)	(53,455,126)	(6,167,563)	(61,471,306)	-	-
Deposits from banks and other financial institutions	(146,918,821)	(26,508,193)	(42,504,532)	(72,178,148)	(5,727,948)	-
Placements from banks and other financial institutions	(39,019,435)	(30,864,875)	(5,712,294)	(2,442,266)	-	-
Financial assets sold under repurchase agreements	(40,296,402)	(39,981,261)	(55,573)	(259,568)	-	-
Deposits from customers	(437,463,676)	(130,513,688)	(23,859,975)	(102,307,827)	(174,216,870)	(6,565,316)
Debt securities issued	(93,910,680)	(15,250,000)	(20,450,000)	(30,854,960)	(12,919,840)	(14,435,880)
Other financial liabilities	(1,558,383)	(786,996)	(584,815)	(186,572)	-	-
<b>Total non-derivative financial liabilities</b>	<b>(880,261,392)</b>	<b>(297,360,139)</b>	<b>(99,334,752)</b>	<b>(269,700,647)</b>	<b>(192,864,658)</b>	<b>(21,001,196)</b>

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

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

##### Derivatives settled on a gross basis

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

- Currency swaps
- Foreign exchange forwards
- Precious metal derivatives

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

	30 June 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between			
			one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Currency swaps and foreign exchange forwards						
– cash outflow	(42,548,266)	(17,074,324)	(8,482,745)	(16,991,197)	–	–
– cash inflow	41,934,766	16,895,968	8,410,527	16,628,271	–	–
Precious metal derivatives						
– cash outflow	(6,411,478)	–	–	(6,411,478)	–	–
– cash inflow	6,275,022	–	–	6,275,022	–	–

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

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

	Contractual undiscounted cash flow	Within one month (inclusive)	31 December 2016			
			Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Currency swaps and foreign exchange forwards						
- cash outflow	(19,077,270)	(3,644,676)	(7,020,732)	(8,411,862)	-	-
- cash inflow	19,282,339	3,661,839	7,136,195	8,484,305	-	-
Precious metal derivatives						
- cash outflow	(145,640)	-	-	(145,640)	-	-
- cash inflow	136,975	-	-	136,975	-	-

### (d) Operational risk

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

The Group established “Three Lines of Defense for Risk Management” on the basis of the main prevention and control organisations consisting of each business department, the Risk Control Centre, the Compliance Department and the Internal Audit Department and also set up operational risk reporting mechanism between the Risk Control Centre and business units, the head office and branches.

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(d) Operational risk (Continued)**

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **36 RISK MANAGEMENT (CONTINUED)**

### **(e) Capital management**

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

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 36 RISK MANAGEMENT (CONTINUED)

### (e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 30 June 2017 and 31 December 2016 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	Note	30 June 2017	31 December 2016
Total core tier-one capital			
– Share capital		5,796,680	5,796,680
– Qualifying portion of capital reserve		11,855,505	11,855,505
– Surplus reserve		5,352,502	4,666,968
– General reserve		11,033,726	9,267,100
– Fair value reserve		(94,311)	(92,044)
– Retained earnings		13,911,096	14,305,688
– Qualifying portions of non-controlling interests		29,509	462,462
– Others		(5,473)	(5,468)
Core tier-one capital		47,879,234	46,256,891
Core tier-one capital deductions		(90,155)	(91,496)
Net core tier-one capital		47,789,079	46,165,395
Other tier-one capital		–	–
Net tier-one capital		47,789,079	46,165,395



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 36 RISK MANAGEMENT (CONTINUED)

### (e) Capital management (Continued)

	<i>Note</i>	30 June 2017	31 December 2016
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		12,200,000	12,200,000
– Surplus provision for loan impairment		<u>2,828,901</u>	<u>2,429,598</u>
Net tier-two capital		<u>15,028,901</u>	<u>14,629,598</u>
Net capital base		<u>62,817,980</u>	<u>60,794,993</u>
Total risk weighted assets	36(e)(i)	519,114,283	507,222,708
Core tier-one capital adequacy ratio		9.21%	9.10%
Tier-one capital adequacy ratio		9.21%	9.10%
Capital adequacy ratio		12.10%	11.99%

*Notes:*

- (i) Both the on-balance and off-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), the CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 9.3%, 7.3% and 6.3%, respectively, at 30 June 2017.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **37 FAIR VALUE**

### **(a) Methods and assumptions for measurement of fair value**

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

#### **(i) Debt securities investments**

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

#### **(ii) Receivables and other non-derivative financial assets**

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## 37 FAIR VALUE (CONTINUED)

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

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

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

#### (iv) Derivative financial instruments

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

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

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

	30 June 2017			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Derivative financial assets				
– Currency derivatives	–	132,098	–	132,098
Available-for-sale financial assets				
– Debt instruments	–	79,901,130	–	79,901,130
<b>Total</b>	–	80,033,228	–	80,033,228

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 37 FAIR VALUE (CONTINUED)

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

	30 June 2017			Total
	Level 1	Level 2	Level 3	
<b>Liabilities</b>				
Derivative financial liabilities				
– Currency derivatives	–	(444,024)	–	(444,024)
– Precious metal derivatives	–	(97,777)	–	(97,777)
Total	–	(541,801)	–	(541,801)

During the period ended 30 June 2017, there were no significant transfers between instruments in Level 1 and Level 2.

	31 December 2016			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Derivative financial assets				
– Currency derivatives	–	273,416	–	273,416
– Precious metal derivatives	–	3,130	–	3,130
Available-for-sale financial				
– Debt instruments	–	45,944,882	–	45,944,882
Total	–	46,221,428	–	46,221,428
<b>Liabilities</b>				
Derivative financial liabilities				
– Currency derivatives	–	(14,206)	–	(14,206)
Total	–	(14,206)	–	(14,206)

During the year ended 31 December 2016, there were no significant transfers between instruments in Level 1 and Level 2.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 37 FAIR VALUE (CONTINUED)

### (c) Level 2 fair value measurement

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

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

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

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

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

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

**(iii) *Held-to-maturity investments***

The fair value for held-to-maturity investments is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 37 FAIR VALUE (CONTINUED)

#### **(d) Fair value of financial assets and liabilities not carried at fair value (Continued)**

##### ***(iv) Available-for-sale equity investments***

Available-for-sale equity investments are unlisted shares. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

##### ***(v) Deposits from customers***

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

##### ***(vi) Debt securities issued***

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 37 FAIR VALUE (CONTINUED)

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

#### (vi) Debt securities issued (Continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	30 June 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<u>Financial assets</u>					
Held-to-maturity investments	179,058,886	175,792,355	–	175,792,355	–
Total	<u>179,058,886</u>	<u>175,792,355</u>	<u>–</u>	<u>175,792,355</u>	<u>–</u>
<u>Financial liabilities</u>					
Debt securities issued					
– Subordinated bonds	19,200,000	18,826,231	–	18,826,231	–
– Certificates of interbank deposit	115,086,716	114,002,353	–	114,002,353	–
Total	<u>134,286,716</u>	<u>132,828,584</u>	<u>–</u>	<u>132,828,584</u>	<u>–</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

## 37 FAIR VALUE (CONTINUED)

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

#### (vi) Debt securities issued (Continued)

	31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<u>Financial assets</u>					
Held-to-maturity					
investments	171,504,761	170,708,662	–	170,708,662	–
Total	<u>171,504,761</u>	<u>170,708,662</u>	<u>–</u>	<u>170,708,662</u>	<u>–</u>
<u>Financial liabilities</u>					
Debt securities issued					
– Subordinated bonds	19,200,000	19,012,624	–	19,012,624	–
– Certificates of interbank deposit	68,089,181	67,110,236	–	67,110,236	–
Total	<u>87,289,181</u>	<u>86,122,860</u>	<u>–</u>	<u>86,122,860</u>	<u>–</u>



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)

## 38 COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Credit commitments

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

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

	30 June 2017	31 December 2016
Bank acceptances	141,294,635	142,948,098
Letters of guarantees	3,896,708	3,468,830
Letters of credit	7,159,497	6,025,207
Unused credit card commitments	<u>2,146,210</u>	<u>2,146,488</u>
Total	<u>154,497,050</u>	<u>154,588,623</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### (b) Credit risk-weighted amount

	30 June 2017	31 December 2016
Credit risk-weighted amount of contingent liabilities and commitments	79,241,923	71,987,378

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

#### (c) Operating lease commitments

As at 30 June 2017 and 31 December 2016, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	30 June 2017	31 December 2016
Within one year (inclusive)	131,999	125,598
Above one year but within five years (inclusive)	427,694	400,401
Above five years	176,650	127,878
Total	736,343	653,877

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### (d) Capital commitments

As at 30 June 2017 and 31 December 2016, the authorised capital commitments of the Group are as follows:

	30 June 2017	31 December 2016
Contracted but not paid for	802,185	1,388,595
Approved but not contracted for	11,378	100,422
Total	<u>813,563</u>	<u>1,489,017</u>

#### (e) Outstanding litigations and disputes

As at 30 June 2017 and 31 December 2016, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

#### (f) Pledged assets

	30 June 2017	31 December 2016
Investment securities	152,848,273	162,344,382
Discounted bills	283,276	312,521
Total	<u>153,131,549</u>	<u>162,656,903</u>

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

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

(Expressed in thousands of RMB, unless otherwise stated)

### 39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2017 and 31 December 2016 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2017		
	Loans and Receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	155,224,599	155,224,599	155,224,599
Investment management products under trust scheme	75,164,209	75,164,209	75,164,209
Wealth management products issued by financial institutions	5,200,000	5,200,000	5,200,000
<b>Total</b>	<b>235,588,808</b>	<b>235,588,808</b>	<b>235,588,808</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

### 39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

	31 December 2016		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	156,798,192	156,798,192	156,798,192
Investment management products under trust scheme	69,940,838	69,940,838	69,940,838
Wealth management products issued by financial institutions	<u>20,072,000</u>	<u>20,072,000</u>	<u>20,072,000</u>
Total	<u><u>246,811,030</u></u>	<u><u>246,811,030</u></u>	<u><u>246,811,030</u></u>

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017*

*(Expressed in thousands of RMB, unless otherwise stated)*

### **39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)**

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

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

During the six months ended 30 June 2017, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB253.21 million (the six months ended 30 June 2016: RMB133.08 million).

As at 30 June 2017, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB45,678 million (31 December 2016: RMB58,589 million).

During the six months ended 30 June 2017, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2017, but matured before 30 June 2017, is RMB20,327 million (the six months ended 30 June 2016: RMB32,347 million).

In addition, unconsolidated structured entities sponsored by the Bank also include trust schemes. In 2015, the Bank transferred a portfolio of corporate loans with carrying amounts of RMB5,900 million to unconsolidated trust schemes managed by an independent trust company, which issued asset-backed securities to investors. The Bank acquired 5% of the issued asset-backed securities from the structured entities. As at 30 June 2017, the carrying amounts of these asset-backed securities held by the Bank are RMB4 million (31 December 2016: RMB12 million), which are also the amounts that best represent the maximum exposure to loss. Under the servicing arrangements with the trust company, the Bank would collect the cash flows of the corporate loans on behalf of the unconsolidated structured entities. In return, the Bank would receive a fee that is expected to compensate the Bank for servicing the related assets. The Bank transfers substantially all of the risks and rewards of ownership of the financial assets to the unconsolidated structured entities and retains a relatively small interest in the vehicle or the servicing arrangement in respect of the corporate loans, these transferred corporate loans are derecognised in their entirety.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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*For the six months ended 30 June 2017  
(Expressed in thousands of RMB, unless otherwise stated)*

## **40 CONSOLIDATED STRUCTURED ENTITIES**

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

As at 30 June 2017, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB3,735 million (31 December 2016: RMB1,485 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management products on the Group's financial performance is not significant.

## **41 FIDUCIARY ACTIVITIES**

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

As at 30 June 2017, the entrusted loans balance of the Group is RMB17,246 million (31 December 2016: RMB38,392 million).

## **42 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD**

The Group has no material events for disclosure subsequent to 30 June 2017 and up to the date of this report.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

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

## 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

### (a) Liquidity coverage ratio

	As at 30 June 2017	Average for the period ended 30 June 2017	As at 31 December 2016	Average for the year ended 31 December 2016
Liquidity coverage ratio (RMB and foreign currency)	179.91%	182.06%	184.22%	160.67%

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

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

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



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

## 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (CONTINUED)

### (b) Leverage ratio

	30 June 2017	31 December 2016
Leverage ratio	<u>4.40%</u>	<u>4.38%</u>

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

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

## 2 CURRENCY CONCENTRATIONS

	30 June 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	6,697,419	538,165	507,162	7,742,746
Spot liabilities	<u>(31,980,721)</u>	<u>(514,318)</u>	<u>(502,107)</u>	<u>(32,997,146)</u>
Net (short)/long position	<u>(25,283,302)</u>	<u>23,847</u>	<u>5,055</u>	<u>(25,254,400)</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 2 CURRENCY CONCENTRATIONS (CONTINUED)

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	18,416,036	204,266	814,043	19,434,345
Spot liabilities	<u>(28,501,578)</u>	<u>(313,772)</u>	<u>(814,043)</u>	<u>(29,629,393)</u>
Net long position	<u>(10,085,542)</u>	<u>(109,506)</u>	<u>–</u>	<u>(10,195,048)</u>

The Group has no structural position at the reporting periods.

### 3 INTERNATIONAL CLAIMS

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

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

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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

*(Expressed in thousands of RMB, unless otherwise stated)*

### 3 INTERNATIONAL CLAIMS (CONTINUED)

	30 June 2017			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	769,767	3,774,968	2,296,292	6,841,027
North and South America	–	676,994	–	676,994
Europe	–	49,348	–	49,348
<b>Total</b>	<b>769,767</b>	<b>4,501,310</b>	<b>2,296,292</b>	<b>7,567,369</b>

	31 December 2016			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	80,130	14,539,342	3,588,617	18,208,089
North and South America	–	1,168,506	–	1,168,506
Europe	–	28,131	–	28,131
<b>Total</b>	<b>80,130</b>	<b>15,735,979</b>	<b>3,588,617</b>	<b>19,404,726</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

### 4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	30 June 2017	31 December 2016
Northeast China	4,675,478	5,684,495
North China	555,246	293,022
Others	63,181	188,818
Total	<u>5,293,905</u>	<u>6,166,335</u>

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

	30 June 2017	31 December 2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	38,100	288,897
– between 6 months and 1 year (inclusive)	430,980	3,044,993
– over 1 year	<u>3,553,043</u>	<u>570,469</u>
Total	<u>4,022,123</u>	<u>3,904,359</u>
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.01%	0.12%
– between 6 months and 1 year (inclusive)	0.16%	1.30%
– over 1 year	<u>1.28%</u>	<u>0.24%</u>
Total	<u>1.45%</u>	<u>1.66%</u>

## DEFINITION

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

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“CBRC Liaoning Bureau”	China Banking Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	15 August 2017, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained herein

## DEFINITION (CONTINUED)

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“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC” or “Central Bank”	the Peoples Bank of China
“PRC”	the Peoples Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the six months ended 30 June 2017
“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Shenyang Hengxin”	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on 10 April 2002
“Supervisor(s)”	the supervisor(s) of the Bank

