



郑州银行
BANK OF ZHENGZHOU

2017中期報告

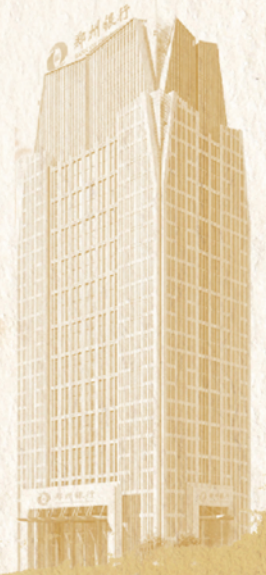
INTERIM REPORT

鄭州銀行股份有限公司
BANK OF ZHENGZHOU CO., LTD.

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號 STOCK CODE : 6196





This interim report is printed on
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* This interim report was prepared in both Chinese and English versions. Where there is discrepancy between the Chinese and English versions, the Chinese version shall prevail.



CHAPTER I CORPORATE INFORMATION

1 BASIC INFORMATION

Legal name in Chinese:	鄭州銀行股份有限公司*
Legal name in English:	Bank of Zhengzhou Co., Ltd.*
Legal representative:	Mr. WANG Tianyu
Authorised representatives:	Mr. WANG Tianyu, Mr. FU Chunqiao
Board secretary:	Mr. FU Chunqiao
Joint company secretaries:	Mr. FU Chunqiao, Ms. LEUNG Wing Han Sharon
Stock exchange on which H Shares are listed:	The Hong Kong Stock Exchange
Stock abbreviation:	ZHENGZHOU BANK
Stock code:	6196
Unified social credit code:	914100001699995779
Financial licence number:	B1036H241010001
Registered address and office address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Principal place of business in Hong Kong:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Contact address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Tel:	+86-0371-67009199
Fax:	+86-0371-67009898
E-mail:	ir@zzbank.cn
Website:	www.zzbank.cn
Auditor:	KPMG
PRC legal advisor:	King & Wood Mallesons (Beijing)
Hong Kong legal advisor:	King & Wood Mallesons
H Share Registrar:	Computershare Hong Kong Investor Services Limited
Trustee agency for Domestic Shares:	China Securities Depository and Clearing Corporation Limited

* The Bank 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 relevant banking/deposit-taking business in Hong Kong.

CHAPTER I CORPORATE INFORMATION (Continued)

2 COMPANY PROFILE

The Bank of Zhengzhou is a regional joint stock commercial bank incorporated in November 1996 upon the approval by the PBoC, based on 48 city credit cooperatives in Zhengzhou City. The Bank was renamed as Zhengzhou Commercial Bank Co., Ltd. in February 2000 and formally renamed as Bank of Zhengzhou Co., Ltd. in December 2009.

The Bank holds a financial licence (number B1036H241010001) approved by the CBRC and was authorised by the Administration for Industry and Commerce of Henan Province to obtain a corporate legal person business licence with unified social credit code 914100001699995779.

As of June 30, 2017, the Bank has a total of 147 physical outlets, comprised of 10 branches and 137 sub-branches (including the operation division of the headquarter). The Bank promoted the establishment of four county banks at Zhongmu, Xinmi, Yanling, Fugou and Jiuding Financial Leasing Company (九鼎金融租賃公司). It also acquired Xinzheng Jingu County Bank (新鄭金穀村鎮銀行).

As of June 30, 2017, Bank of Zhengzhou had total assets of RMB417.535 billion, deposits balance amounted to RMB245.401 billion, loan balance amounted to RMB121.953 billion, capital adequacy ratio of 12.08%, non-performing loan (“NPL”) ratio of 1.38% and allowance to NPLs of 208.84%. Each of the Bank's major regulatory indicators has met the regulatory requirements. In the latest list of “Top 1,000 World Banks 2017” published by the HK magazine “*The Banker*”, the Bank ranked 322nd on tier-one capital, representing 16 places up year-on-year.

3 MAJOR AWARDS IN THE FIRST HALF OF 2017

In June 2017, the Bank received three awards in the election “Financial Innovation Award in China 2017” organized by the Chinese magazine “*The Banker*”, namely “the Best Financial Innovation” award, “Top Ten Financial Product Innovation” award and “Top Ten Internet Finance Innovation” award.

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

The financial information set out in this interim report is prepared on a combined basis in accordance with International Financial Reporting Standards. Unless otherwise stated, such information is the data of the Bank and its subsidiaries (collectively the “Group”) denominated in RMB.

In respect of the financial statements of the Bank prepared under the PRC generally accepted accounting principles (China Accounting Standards) and those under IFRS, there is no difference between the net profit attributable to shareholders of the Bank as of the end of the Reporting Period and the net profit attributable to shareholders as at the end of the Reporting Period.

	For the six months ended June 30,		
	2017	2016	2017 vs. 2016
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>		
			Rate of
			Change (%)
Operating Results			
Net interest income	4,060	3,940	3.05
Net fee and commission income	909	592	53.55
Operating income	4,860	4,702	3.36
Operating expenses	(1,134)	(1,104)	2.72
Provision of impairment losses on assets	(737)	(839)	(12.16)
Profit before taxation	3,008	2,780	8.20
Net profit	2,325	2,131	9.10
Net profit attributable to shareholders of the Bank	2,271	2,122	7.02
			Rate of
			Change (%)
Calculated on a per share basis (RMB)			
Net assets per share attributable to shareholders of the Bank	4.21	3.65	15.34
Earnings per share	0.43	0.40	7.50
			Change
Profitability Indicators (%)			
Return on average total assets ⁽¹⁾	1.19	1.47	(0.28)
Return on average equity ⁽²⁾	20.80	22.84	(2.04)
Net interest spread ⁽³⁾	2.05	2.59	(0.54)
Net interest margin ⁽⁴⁾	2.20	2.77	(0.57)
Net fee and commission income to operating income	18.70	12.59	6.11
Cost-to-income ratio ⁽⁵⁾	22.60	19.75	2.85

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS (Continued)

	As at June 30, 2017	As at December 31, 2016	End of first half of 2017 vs. end of 2016
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Capital adequacy ratio indicators⁽⁶⁾ (%)			Change
Calculated based on the Capital Administrative Measures for Commercial Banks			
Core tier-one capital adequacy ratio	8.59	8.79	(0.20)
Tier-one capital adequacy ratio	8.61	8.80	(0.19)
Capital adequacy ratio	12.08	11.76	0.32
Total equity to total assets	5.53	5.97	(0.44)
Asset quality indicators (%)			Change
NPL ratio ⁽⁷⁾	1.38	1.31	0.07
Allowance to NPLs ⁽⁸⁾	208.84	237.38	(28.54)
Allowance to total loans ⁽⁹⁾	2.88	3.11	(0.23)
Other indicator (%)			Change
Loan-to-deposit ratio	49.70	51.34	(1.64)
			Rate of Change (%)
Scale indicators			
Total assets	417,535	366,148	14.03
Of which: Net loans and advances to customers	118,445	107,633	10.05
Total liabilities	394,462	344,287	14.57
Of which: Deposits from customers	245,401	216,390	13.41
Share capital	5,322	5,322	–
Equity attributable to shareholders of the Bank	22,392	21,296	5.15
Non-controlling interests	681	565	20.53
Total equity	23,073	21,861	5.54

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS (Continued)

Notes:

- (1) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the end of the period.
- (2) Calculated by dividing net profit attributable to shareholders of the Bank for the period by average balance of total equity attributable to shareholders of the parent company at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities. Calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.
- (6) The CBRC published the Capital Administrative Measures for Commercial Banks on June 7, 2012, which became effective on January 1, 2013 and replaced the Capital Adequacy Measures.
- (7) Calculated by dividing total NPLs by gross loans and advances to customers.
- (8) Calculated by dividing allowance for impairment losses on loans to customers by total NPLs .
- (9) Calculated by dividing allowance for impairment losses on loans to customers by gross loans and advances to customers.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

1 PAST ECONOMY AND ENVIRONMENT AND FUTURE PROSPECTS

In the first half of 2017, faced with a complicated economic environment at home and abroad, the PRC government insisted on making improvements while maintaining a general stable national economy, it guided the new norm of economic development with new development concepts, deepened the reform and innovation and firmly implemented relevant policies with structural reforms on the supply side as the focus of development and improvement of quality and benefits as the centre. As such, the economic operation was maintained within a reasonable range and the stable improvement trend became more obvious, and the national economy was developed in a stable, coordinated and sustainable manner with a more stable growth, better employment rate, more stable price for goods, higher income and more optimized structure. In the first half of 2017, the gross domestic product (GDP) of the PRC amounted to RMB38,149 billion, representing a year-on-year increase of 6.9%; value added output of industrial enterprises above designated size of the country had a year-on-year growth of 6.9%; fixed asset investment (excluding farmers) reached RMB28,060.5 billion with a year-on-year growth of 8.6%; consumer price index (CPI) recorded a year-on-year increase of 1.4%; producer price index for industrial products (PPI) increased by 6.6% year-on-year. As at the end of June 2017, the balance of broad money (M2) amounted to RMB163.13 trillion with a year-on-year growth of 9.4%, down by 2.4 percentage points as compared with the corresponding period of last year; the balance of narrow money (M1) amounted to RMB51.02 trillion with a year-on-year growth of 15%, down by 9.6 percentage points as compared with the corresponding period of last year; and the balance of cash in circulation (M0) amounted to RMB6.7 trillion with a year-on-year growth of 6.6%. As at the end of June 2017, the total assets of domestic financial institutions in the banking industry reached RMB236.54 trillion, representing an increase of 11.4% as compared with the corresponding period in the previous year; the total liabilities amounted to RMB218.39 trillion, representing an increase of 11.3% as compared with the corresponding period in the previous year. As of the end of June 2017, the capital adequacy ratio of commercial banks, liquidity coverage ratio and allowance to NPLs of financial institutions in the banking industry was 13.2%, 124.4% and 172.3%, respectively. The banking industry generally remained steady with certain achievements made on clamping down the chaotic market, evidenced by generally controllable risks, reasonable growth of assets, strengthened support for real economy and reduction of illegal capital circulation.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In the first half of 2017, Henan Province of the PRC, where the Bank is located, made progress while maintaining a generally stable economy and firmly implemented relevant policies, as a result of which an overall stable improvement economic development was maintained with steady increase in main indexes, optimized economic structure adjustment, continuous improvement in quality and efficiency and strengthened development momentum. According to the preliminary statistics, in the first half of 2017, GDP in the whole province reached RMB2,030.772 billion with a year-on-year growth of 8.2%, which was 1.3% higher than the national average level; the value added output of industrial enterprises above designated size of the province reached a year-on-year growth of 8.2%, which was 1.3% higher than the national level; fixed asset investment reached RMB1,899.928 billion with a year-on-year growth of 10.9%, which was 2.3% higher than the national growth rate; the general level of consumer prices in the province recorded a year-on-year increase of 0.9%, and PPI increased by 6.9% year-on-year. In the first half of 2017, the banking industry of Henan Province maintained a favorable growth momentum, total loan advanced in the province had a year-on-year growth of 18.0%, 4.89% higher than the national level; the NPL ratio in banking industry of the whole province was 2.5%, decreased by 0.32% as compared with the beginning of the year; the capital adequacy ratio and the core tier-one capital adequacy ratio of financial institutions in corporate banking industry increased by 1.6% and 1.2% year-on-year respectively, and liquidity coverage ratio increased by 34.4% as compared with the beginning of the year.

In the first half of 2017, the national economy continued the stable improvement development status. Despite the uncertainties in the world and the structural contradictions in the domestic economy, the PRC economy was still improving stably with continuously enhanced economic stability. Considering the greater promotion of the economic development attributed to the rapid development of new momentums. Generally speaking, it is expected that new positive change to the PRC economy operation will continue to increase in the second half of 2017, the status of stable improvement development will be further strengthened and expanded. The National Financial Work Conference was held in Beijing from July 14 to July 15, 2017, during which three tasks of “serving the real economy, guarding against financial risks and deepening financial reforms” with “preventing risks, deleveraging and promoting reform” as keynote were raised with aims to reduce the systematic risks of the financial sector by making finance to serve the real economy and to build a financial system which is accustomed to the development needs of the PRC economy, and to define the directions for the further development of the finance industry in the PRC. In the second half of 2017, the Bank will proactively respond to new situations and requirements; will insist on the development of a solid foundation, stringent management and a powerful headquarter; will push forward the main line works for its transformation development; will expedite the implementation of “financial services for commercial sector, small and micro enterprises and citizens”; will not loosen up; and will emphasize on abilities development, innovative guidance and risks control and prevention. The Bank will overcome difficulties, seek improvement while maintaining stability and bring all of its projects up to another level.

2 OVERALL OPERATION OVERVIEW

In the first half of 2017, the Bank comprehensively implemented the working plans reached at the beginning of the year despite great pressure and difficulties. The Bank overcame severe challenges such as the macro prudential assessment (the “MPA”), fear of insufficient capital and assets, and financial regulation, and we obtained outstanding achievements.

Deposits growth breaking historical record. As at June 30, 2017, the Bank’s asset scale increased by RMB51.387 billion or 14.03% to RMB417.535 billion from the beginning of the year; deposit balance increased by RMB29.011 billion or 13.41% to RMB245.401 billion from the beginning of the year; and loan balance rose by RMB10.861 billion or 9.78% to RMB121.953 billion from the beginning of the year. In the first half of year, the Bank realized net profits totaling RMB2.325 billion with a year-on-year increase of RMB194 million or 9.10%. The capital adequacy ratio was 12.08%, the NPL ratio was 1.38% and the allowance to NPLs ratio was 208.84%. Major regulatory indicators met the regulatory requirements.

Obtaining new business qualification. The Bank has been approved by the CBRC Henan Bureau to engage in fundamental financial derivatives, which can help the Bank to enrich products and risk management methods, and further enhance its ability to manage exchange rate risks and interest rate risks. The Bank is also the first corporation bank in the province to obtain such a business qualification.

Greatly promoting the development of financial services for the commercial sector. Firstly, a series of trade finance management systems were released and implemented to optimize our customer relation management (the “CRM”) system and realize online management of our sales process. Secondly, the Bank has launched innovative products such as onshore guarantees for offshore loans, financing by entitlement to operation-related charges and incomes, letters of credit for export and international forfaiting. The Bank also launched online operations for automobile financial products and letters of credit and online systems for factoring and financial leases and receipts so as to expedite the automation of trading and financial products. As at June 30, 2017, the balance of trade finance reached RMB47.9 billion with an increase of RMB8.12 billion or 20.4% from the beginning of the year; the balance of foreign exchange deposits amounted to 16.280 billion (converted into RMB), representing an increase of 30.68% from RMB3.822 billion at the beginning of the year.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Speeding up the construction of a boutique bank of the people. In terms of retail business, the Bank launched the online sales system for purchase of wealth management products with ordinary bank passbook, and expanded the application of a batch of financial IC cards in relation to the mobile industry park in the airport zone. In the first half of year, the Bank also launched open-type financing products such as “Weekly Profit” (週週盈) and “Quarterly Profit” (季季盈), and high-yield financing products which are exclusive for trade union members. As at June 30, 2017, the balance of deposits reached RMB67.078 billion, increasing by RMB6.191 billion or 10.18% from the beginning of the year. In relation to the financial services for small and micro enterprises, the small enterprises financial service centre operated independently and focused on the marketing of two key products, namely, “Pledge of House for Loans” (房抵貸) and “Senior Loans” (優先貸). The Bank also launched products such as “Micro Happy Installment” (微樂分), “Easy Loan” (隨心貸), online supply chain business for Shaxian County Snacks, tourism loans and parking space loans, and successfully fulfilled the “Three Maximum Thresholds” indicators. In respect of electronic banking, ETC charge card business was launched, “fast online application” platform and credit cards, namely, “Huawei Pay” (華為Pay) and “Mi Pay” (小米Pay) were introduced, and “Tenpay repayment” (財付通還款) channel was opened; mobile banking services were initiated to promote the intelligentization of our network in an orderly manner; “Ding Rong Yi” (鼎融易) launched the “Universal Payment” channel, and initiated the online “combined payment” through code scanning, continuously enhancing customers' experience.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3 ANALYSIS OF INCOME STATEMENT

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Interest income	8,537	7,139	1,398	19.58
Interest expense	(4,477)	(3,199)	(1,278)	39.95
Net interest income	4,060	3,940	120	3.05
Fee and commission income	932	611	321	52.54
Fee and commission expense	(23)	(19)	(4)	21.05
Net fee and commission income	909	592	317	53.55
Net trading losses	(163)	(61)	(102)	167.21
Net gains arising from investments	33	156	(123)	(78.85)
Other operating income	21	75	(54)	(72.00)
Operating income	4,860	4,702	158	3.36
Operating expenses	(1,134)	(1,104)	(30)	2.72
Impairment losses on assets	(737)	(839)	102	(12.16)
Operating profit	2,989	2,759	230	8.34
Share of profits of associates	19	21	(2)	(9.52)
Profit before taxation	3,008	2,780	228	8.20
Income tax expense	(683)	(649)	(34)	5.24
Net profit	2,325	2,131	194	9.10
Net profit attributable to				
shareholders of the Bank	2,271	2,122	149	7.02
Non-controlling interests	54	9	45	500.00

In the first half of 2017, the Bank recorded profit before taxation and net profit of RMB3,008 million and RMB2,325 million, representing an increase of 8.20% and 9.10% as compared to the same period last year, respectively.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.1 Net interest income, net interest spread and net interest margin

In the first half of 2017, the Bank recorded net interest income of RMB4,060 million, representing an increase of RMB120 million or 3.05% as compared to the same period last year, which accounted for 83.54% of the operating income. Among this, a net interest income growth of RMB1,010 million as compared to the first half of 2016 was attributable to the expansion of the Bank's business scale and a decline in net interest income of RMB890 million was attributable to the changes in yield or cost rate.

The following tables set out, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the six months ended June 30,					
	2017			2016		
	Average balance ⁽⁶⁾	Interest income	Average yield (%)	Average balance ⁽⁶⁾	Interest income	Average yield (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Interest-earning assets						
Loans and advances to customers	118,388	3,171	5.36	98,681	3,121	6.33
Investment in securities and other financial assets ⁽¹⁾	186,177	4,514	4.85	137,964	3,563	5.17
Deposits with the Central Bank	30,750	232	1.51	25,978	199	1.53
Amounts due from banks and other financial institutions ⁽²⁾	26,857	363	2.70	21,632	242	2.24
Finance lease receivables	7,395	257	6.95	439	14	6.38
Total interest-earning assets	369,567	8,537	4.62	284,694	7,139	5.02

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

	For the six months ended June 30,					
	Average balance ⁽⁶⁾	2017 Interest expense	Average cost (%)	Average balance ⁽⁶⁾	2016 Interest expense	Average cost (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Interest-bearing liabilities						
Deposits from customers	215,571	2,059	1.91	176,565	1,696	1.92
Amounts due to banks and other financial institutions ⁽³⁾	76,099	1,323	3.48	52,181	870	3.33
Debt securities issued	55,397	1,083	3.91	34,318	633	3.69
Due to the Central Bank	743	12	3.23	–	–	–
Total interest-bearing liabilities	347,810	4,477	2.57	263,064	3,199	2.43
Net interest income		4,060			3,940	
Net interest spread⁽⁴⁾			2.05			2.59
Net interest margin⁽⁵⁾			2.20			2.77

Notes:

- (1) Consisted of our financial assets at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments, and financial investments classified as loans and receivables.
- (2) Consisted of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
- (3) Consisted of amounts due to deposits and placements from banks and other financial institutions and financial asset sold under repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of the balances.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, for the periods indicated, the changes in the Bank's interest income and interest expense attributable to changes in volume and rate. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rate of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in rate.

	For the six months ended June 30, 2017 vs 2016		
	Increase/(decrease) due to Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
<i>(Expressed in millions of RMB)</i>			
Interest-earning assets			
Loans and advances to customers	623	(573)	50
Investment securities and other financial assets	1,245	(294)	951
Deposits with the Central Bank	37	(4)	33
Amounts due from banks and other financial institutions	58	63	121
Finance lease receivables	222	21	243
Changes in interest income	2,185	(787)	1,398
Interest-bearing liabilities			
Deposits from customers	375	(12)	363
Amounts due to banks and other financial institutions	399	54	453
Debt securities issued	389	61	450
Due to the Central Bank	12	–	12
Changes in interest expense	1,175	103	1,278

Notes:

- (1) Representing the daily average balance for the Reporting Period minus the daily average balance for the same period in previous year, multiplied by the average yield/cost for the same period in previous year.
- (2) Representing the average yield/(cost) for the Reporting Period minus the average yield/(cost) for the same period in previous year, multiplied by the daily average balance for the Reporting Period.
- (3) Representing interest income/(expense) for the Reporting Period minus interest income/(expense) for the same period in previous year.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2 Interest income

In the first half of 2017, the Bank's interest income increased by RMB1,398 million or 19.58% to RMB8,537 million as compared to the same period last year, which was primarily attributable to (i) the increase in the volume for investment securities and other financial assets, (ii) the increase in the volume of amounts due from banks and other financial institutions, and (iii) the increase in the volume for finance lease receivables.

3.2.1 Interest income from loans and advances to customers

In the first half of 2017, interest income from loans and advances to customers of the Bank increased by RMB50 million or 1.60% to RMB3,171 million as compared to the same period last year, primarily as a result of the increase of RMB19.707 billion in the average balance of loans and advances to customers, which mainly reflected the overall growth of the Bank's loan business.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the six months ended June 30,					
	Average balance	2017 Interest income	Average yield (%)	Average balance	2016 Interest income	Average yield (%)
Corporate loans	87,232	2,417	5.54	70,851	2,302	6.50
Personal loans	26,629	749	5.63	22,719	718	6.32
Discounted bills	4,527	5	0.22	5,111	101	3.95
Total loans and advances to customers	118,388	3,171	5.36	98,681	3,121	6.33

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2.2 Interest income from investment securities and other financial assets

In the first half of 2017, interest income from investment securities and other financial assets of the Bank increased by RMB951 million or 26.69% to RMB4,514 million as compared to the same period last year, principally attributable to the increase of RMB48,213 million in the average balance of investment securities and other financial assets. The increase in the average balance of investment securities and other financial assets was primarily attributable to the increase in investment of debt securities, investment products under trust schemes, investment products managed by securities companies and factoring beneficiary rights. The decline in average yield was attributable to the fluctuation of market interest rates in the first half of 2017.

3.2.3 Interest income from deposits with the Central Bank

In the first half of 2017, interest income from deposits with the Central Bank of the Bank increased by RMB33 million or 16.58% year-on-year to RMB232 million, primarily attributable to the increase in the average balance of deposits with the Central Bank, and among which, primarily the increase in statutory deposit reserve along with the growth of deposits from customers.

3.2.4 Interest income from amounts due from banks and other financial institutions

In the first half of 2017, interest income from amounts due from banks and other financial institutions of the Bank increased by RMB121 million or 50.00% year-on-year to RMB363 million, primarily attributable to the increase of RMB5,225 million in the average balance of the amounts due from banks and other financial institutions and the increase in average yield, whereas the increase in average yield was primarily attributable to the shortage of capital in the market caused by the continuous promotion of financial deleveraging in the first half of 2017.

3.2.5 Interest income from finance lease receivables

Interest income from finance lease receivables increased by RMB243 million or 1,735.71% year-on-year to RMB257 million, primarily attributable to the establishment of a subsidiary, Jiuding Financial Leasing Company, by the Bank on March 23, 2016.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.3 Interest expense

In the first half of 2017, the Bank's interest expense increased by RMB1,278 million or 39.95% year-on-year to RMB4,477 million, primarily attributable to (i) the increase in the volume of deposits from customers, (ii) the increase in the volume of amounts due to banks and other financial institutions, and (iii) the increase in the volume of debt securities issued.

3.3.1 Interest expense on deposits from customers

In the first half of 2017, the Bank's interest expense on deposits from customers increased by RMB363 million or 21.40% to RMB2,059 million as compared to the same period last year, primarily attributable to continuous growth of the Bank's deposit business resulting from the Bank's constant efforts in the expansion of customers and branch network. The decrease in the average cost of deposits from customers was primarily attributable to the market interest rate fluctuations.

	For the six months ended June 30,					
	2017			2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Corporate deposits						
Demand	72,665	188	0.52	59,741	146	0.49
Time	60,876	1,115	3.66	40,697	655	3.22
Sub-total	133,541	1,303	1.95	100,438	801	1.60
Personal deposits						
Demand	14,929	34	0.46	12,850	27	0.42
Time	45,900	535	2.33	37,962	569	3.00
Sub-total	60,829	569	1.87	50,812	596	2.35
Others	21,201	187	1.76	25,315	299	2.36
Total deposits from customers	215,571	2,059	1.91	176,565	1,696	1.92

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.3.2 Interest expense on amounts due to banks and other financial institutions

In the first half of 2017, the Bank's interest expense on amounts due to banks and other financial institutions increased by RMB453 million or 52.07% year-on-year to RMB1,323 million, primarily attributable to the increase in the average balance of the amounts due to banks and other financial institutions and the increase in average cost. The increase in the average balance of the amounts due to banks and other financial institutions was primarily attributable to the increase in liabilities from banks via various channels after the Bank's comprehensive consideration of the need to match assets and liabilities. In the first half of 2017, the continuous promotion of financial deleveraging resulted in the shortage of capital in the market and thus the average cost increased.

3.3.3 Interest expense on debt securities issued

In the first half of 2017, the Bank's interest expense on debt securities issued increased by RMB450 million or 71.09% year-on-year to RMB1,083 million, which was primarily attributable to the increase in the average balance of debt securities issued resulting from the issuance of interbank certificates of deposit for the first half of 2017 and the increase in average cost. In the first half of 2017, the continuous promotion of financial deleveraging resulted in the shortage of capital in the market and thus the average cost increased.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.59% for the same period of last year to 2.05% for the current year, while the Bank's net interest margin decreased from 2.77% for the same period of last year to 2.20% for the current year. The decline in net interest spread and net interest margin was primarily attributable to (i) the decline in the average yield of loans and advances to customers, investment securities and other financial assets and other major interest-earning assets resulting from the interest rate liberalization; (ii) the decline in the proportion of loans and advances to customers with higher yield to total assets; and (iii) the continuous promotion of financial deleveraging resulted in the increase of average cost of interest-bearing liabilities, such as amounts due to banks and other financial institutions and debt securities issued.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.4 Non-interest income

3.4.1 Net fee and commission income

In the first half of 2017, the Bank's net fee and commission income increased by RMB317 million or 53.55% year-on-year to RMB909 million, primarily attributable to the increase in fee and commission income, which reflected the overall growth of the Bank's fee and commission businesses.

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Fee and commission income				
Agency and custody services fees	569	368	201	54.62
Underwriting and advisory services fees	260	139	121	87.05
Acceptance and guarantee services fees	61	78	(17)	(21.79)
Bank card services fees	37	20	17	85.00
Others	5	6	(1)	(16.67)
Fee and commission expense	(23)	(19)	(4)	21.05
Net fee and commission income	909	592	317	53.55

In the first half of 2017, the Bank realized agency and custody services fees income of RMB569 million, up by RMB201 million or 54.62% year-on-year, primarily attributable to the Bank's continuous development of our agency and custody business with increase in the scale of agency and custody services offered.

In the first half of 2017, the Bank realized underwriting and advisory fees income of RMB260 million, up by RMB121 million or 87.05% year-on-year, primarily attributable to the increase in the number of bonds underwritten by the Bank.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In the first half of 2017, the Bank realized acceptance and guarantee services fees income of RMB61 million, declined by RMB17 million or 21.79% year-on-year, primarily attributable to of the decrease in the amount of our acceptance business.

In the first half of 2017, the Bank realized bank card services fees income of RMB37 million, up by RMB17 million or 85.00% year-on-year, primarily attributable to the continued increase in the number of bank cards issued by the Bank and the transaction amount realized by using the Bank's bank cards.

3.4.2 Net trading losses

In the first half of 2017, the Bank's net trading loss was RMB163 million, increased by RMB102 million year-on-year, primarily attributable to the loss of RMB105 million in the financial statements of the Bank caused by the fluctuations in the U.S. dollar exchange rate in the first half of 2017.

3.4.3 Net gains arising from investments

In the first half of 2017, the Bank's net gains arising from investments was RMB33 million, decreased by RMB123 million year-on-year, primarily attributable to the adjustment of investment structure by the Bank according to market condition.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.5 Operating expenses

In the first half of 2017, the Bank's operating expenses was RMB1,134 million, increased by RMB30 million or 2.72% year-on-year, primarily attributable to growth in staff costs, depreciation and amortisation and rental and property management expenses.

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Staff costs	625	504	121	24.01
Depreciation and amortisation	122	102	20	19.61
Rental and property management expenses	85	70	15	21.43
Office expenses	32	30	2	6.67
Tax and surcharges	35	175	(140)	(80.00)
Other general and administrative expenses	235	223	12	5.38
Total operating expenses	1,134	1,104	30	2.72

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table shows the major components of staff costs of the Bank for the periods indicated.

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Staff costs				
Salaries, bonuses and allowances	449	360	89	24.72
Social insurance and annuity	90	71	19	26.76
Staff welfare	45	40	5	12.50
Housing allowances	27	21	6	28.57
Supplementary retirement benefits	1	3	(2)	(66.67)
Others	13	9	4	44.44
Total staff costs	625	504	121	24.01

In the first half of 2017, the total staff costs of the Bank were RMB625 million, up by RMB121 million or 24.01% year-on-year, primarily attributable to the increase in salaries, bonuses and allowances. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 55.11% and 45.65% of the total operating expenses in the first half of 2017 and the first half of 2016, respectively.

In the first half of 2017, depreciation and amortisation expenses were RMB122 million, up by RMB20 million or 19.61% year-on-year, primarily as a result of the increase in the provision for depreciation and amortisation of fixed assets and intangible assets given the expansion of branch network and upgrading of information technology system.

In the first half of 2017, rental and property management expenses were RMB85 million, up by RMB15 million or 21.43% year-on-year, primarily attributable to the expansion of the Bank's branch network.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In the first half of 2017, the Bank's tax and surcharges were RMB35 million, down by RMB140 million or 80.00% year-on-year, primarily because the Bank was subject to value added taxes instead of business tax given the nationwide comprehensive implementation of the pilot work for transition from business tax to value added tax since May 1, 2016 according to the requirements of the document Cai Shui [2016] No. 36.

In the first half of 2017, office expenses were RMB32 million, up by RMB2 million or 6.67% year-on-year, primarily as a result of the expansion of business scale and branch network of the Bank.

In the first half of 2017, other general and administrative expenses were RMB235 million, up by RMB12 million or 5.38% year-on-year. Other general and administrative expenses primarily due to the increase in marketing expenses and consultancy fees as compared with the same period last year.

3.6 Impairment losses on Assets

In the first half of 2017, the Bank's impairment losses on assets decreased by RMB102 million or 12.16% year-on-year to RMB737 million, primarily attributable to the decrease in the impairment losses of loans and advances to customers.

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Loans and advances to customers	640	728	(88)	(12.09)
Financial investments classified as loans and receivables	20	95	(75)	(78.95)
Finance lease receivables	90	14	76	542.86
Others	(13)	2	(15)	(750.00)
Total provision for assets impairment losses	737	839	(102)	(12.16)

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.7 Income tax expense

In the first half of 2017, the Bank's income tax expense increased by RMB34 million or 5.24% to RMB683 million, which was primarily attributable to the increase in the Bank's profit before taxation.

	For the six months ended June 30,			
	2017	2016	Change	Rate of change (%)
	<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Current income tax	720	813	(93)	(11.44)
Deferred income tax	(39)	(168)	129	(76.79)
Adjustments for prior years	2	4	(2)	(50.00)
Total income tax expenses	683	649	34	5.24

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4 ANALYSIS OF KEY ITEMS OF FINANCIAL POSITION

4.1 Assets

As at June 30, 2017, the Bank's total assets increased by RMB51,387 million or 14.03% to RMB417,535 million from the end of last year. The principal components of the Bank's assets consisted of (i) loans and advances to customers (net) and (ii) investment securities and other financial assets, up by RMB10,812 million and RMB681 million respectively from the end of last year.

The following table sets out, as at the dates indicated, the components of the Bank's total assets.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Gross loans and advances to customers	121,953		111,092	
Allowance for losses	(3,508)		(3,459)	
Loans and advances to customers, net	118,445	28.37	107,633	29.40
Investment securities and other financial assets	183,825	44.03	183,144	50.02
Cash and deposits with the Central Bank	45,669	10.94	42,586	11.63
Deposits with banks and other financial institutions	4,327	1.04	1,415	0.39
Placements with banks and other financial institutions	15,352	3.68	11,758	3.20
Financial assets held under resale agreements	32,948	7.89	5,120	1.40
Finance lease receivables	9,701	2.32	5,721	1.56
Other assets	7,268	1.73	8,771	2.40
Total assets	417,535	100.00	366,148	100.00

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.1 Loans and advances to customers

As at June 30, 2017, the Bank's gross loans and advances to customers increased by RMB10,861 million to RMB121,953 million, representing an increase of 9.78% as compared with the end of last year. Our gross loans and advances to customers consisted primarily of corporate loans, personal loans and discounted bills.

The following table sets out, as at the dates indicated, a breakdown of the Bank's loans by business line.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate loans	91,112	74.71	81,255	73.14
Personal loans	28,884	23.68	24,815	22.34
Discounted bills	1,957	1.61	5,022	4.52
Gross loans and advances to customers	121,953	100.00	111,092	100.00

(1) Corporate loans

The corporate loans are the largest component of the Bank's loan portfolio. As at June 30, 2017, the Bank's corporate loans increased by RMB9,857 million to RMB91,112 million or 74.71% of the Bank's gross loans and advances to customers, representing an increase of 12.13% as compared with the end of last year, mainly due to (i) the Bank's continued commitment to meet the capital requirements of the rapidly-growing wholesale and retail industry and to develop the loan business for small and micro enterprises; and (ii) the Bank's efforts to continuously strengthen the business cooperation with core quality clients in various sectors to sustain the growth of the relevant loan balance.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, as at the dates indicated, a breakdown of the Bank's corporate loans by collateral.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Unsecured loans	7,970	8.75	6,455	7.95
Guaranteed loans	34,489	37.85	33,424	41.13
Loans secured by mortgages	21,090	23.15	20,198	24.86
Loans secured by pledges	27,563	30.25	21,178	26.06
Total corporate loans	91,112	100.00	81,255	100.00

(2) Personal loans

As at June 30, 2017, the Bank's personal loans increased by RMB4,069 million to RMB28,884 million, representing an increase of 16.40% as compared with the end of last year, mainly attributable to the continued growth in personal residential mortgage loans, personal business loans, personal consumption loans and credit card balances.

As at June 30, 2017, the personal residential mortgage loans increased by RMB1,798 million, representing an increase of 26.20% as compared with the end of last year and the personal business loans increased by RMB805 million, representing an increase of 6.85% as compared with the end of last year, mainly attributable to the continued promotion of the national centre city of Zhengzhou and other planning and construction which led to the growth of individual housing demands and business demands. The personal consumption loans and credit card balances increased by 27.41% and 13.10% respectively as compared with the end of last year, mainly attributable to the business growth resulting from the Bank's greater efforts in innovating our consumption loan products and vigorously developing our credit card business.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, as at the dates indicated, a breakdown of the Bank's personal loans by product type.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Personal business loans	12,555	43.47	11,750	47.35
Personal residential mortgage loans	8,660	29.98	6,862	27.65
Personal consumption loans	6,169	21.36	4,842	19.51
Automobile loans	516	1.78	491	1.98
Credit card balances	984	3.41	870	3.51
Total personal loans	28,884	100.00	24,815	100.00

(3) Discounted bills

As at June 30, 2017, the Bank's discounted bills decreased by RMB3,065 million to RMB1,957 million, representing a decrease of 61.03% as compared with the end of last year. In the first half of 2017, the Bank flexibly adjusted the scale of bill financing according to our business development requirements and clients' financing needs.

4.1.2 Investment securities and other financial assets

As at June 30, 2017, the total amount of the Bank's investment securities and other financial assets increased by RMB681 million to RMB183,825 million, representing an increase of 0.37% as compared with the end of last year. The increase in such assets of the Bank for the first half of 2017 was mainly due to the continuous increase in our holding of bond investments.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, as at the dates indicated, the distribution of the Bank's investment securities and other financial assets by investment intentions.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Financial investments classified as loans and receivables	92,330	50.23	118,225	64.55
Held-to-maturity investments	55,250	30.06	49,671	27.12
Available-for-sale financial assets	26,263	14.29	6,302	3.44
Financial assets at fair value through profit or loss	9,982	5.42	8,946	4.89
Total investment securities and other financial assets	183,825	100.00	183,144	100.00

Our investment securities and other financial assets are classified into fixed-income securities and equity instruments. During the Reporting Period, substantially all of our investment securities and other financial assets were fixed-income securities. The following table sets out, as at the dates indicated, the distribution of the Bank's investment securities and other financial assets by fixed income securities and equity instruments.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Government bonds	17,980	9.75	14,783	8.05
Debt securities issued by policy banks	31,774	17.24	32,869	17.90
Debt securities issued by banks and other financial institutions	16,540	8.97	6,917	3.76
Debt securities issued by corporate issuers	4,358	2.36	4,974	2.71
Sub-total	70,652	38.32	59,543	32.42
Investment products under trust schemes	48,307	26.20	52,795	28.75
Investment products managed by securities companies	41,577	22.55	45,080	24.54
Others	23,821	12.93	26,238	14.29
Total	184,357	100.00	183,656	100.00
Less: Allowance for impairment losses	(540)		(520)	
Total fixed-income instruments	183,817		183,136	
Equity instruments	8		8	
Total investment securities and other financial assets	183,825		183,144	

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets primarily consisted of: (i) cash and deposits with the Central Bank, (ii) amounts due from banks and other financial institutions, (iii) financial assets held under resale agreements and (iv) financial lease receivables.

As at June 30, 2017, the Bank's total cash and deposits with the Central Bank increased by RMB3,083 million to RMB45,669 million, representing an increase of 7.24% as compared with the end of last year, mainly due to the increase of our deposit reserves maintained with the PBoC so as to maintain a higher liquidity.

As at June 30, 2017, the Bank's amounts due from banks and other financial institutions increased by RMB6,506 million to RMB19,679 million, representing an increase of 49.39% as compared with the end of last year, mainly due to the adjustments made by the Bank after taking into comprehensive consideration of the need for matching assets and liabilities and the market liquidity.

As at June 30, 2017, the Bank's total financial assets held under resale agreements increased by RMB27,828 million to RMB32,948 million, representing an increase of 543.52% as compared with the end of last year, mainly due to the adjustments made by the Bank after taking into comprehensive consideration of the need for matching assets and liabilities and the market liquidity.

As at June 30, 2017, the Bank's total finance lease receivables increased by RMB3,980 million to RMB9,701 million, representing an increase of 69.57% as compared with the end of last year. The change in these assets was mainly due to the establishment of a subsidiary, Jiuding Financial Leasing Company, by the Bank on March 23, 2016.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2 Liabilities

As at June 30, 2017, the Bank's total liabilities increased by RMB50,175 million to RMB394,462 million, representing an increase of 14.57% as compared with the end of last year.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Due to the Central Bank	1,092	0.28	77	0.02
Deposits from customers	245,401	62.21	216,390	62.85
Deposits from banks and other financial institutions	25,751	6.53	25,808	7.50
Placements from banks and other financial institutions	25,769	6.53	19,106	5.55
Financial assets sold under repurchase agreements	28,725	7.28	33,251	9.66
Debt securities issued	60,145	15.25	44,660	12.97
Other liabilities ⁽¹⁾	7,579	1.92	4,995	1.45
Total liabilities	394,462	100.00	344,287	100.00

Note:

- (1) Consisted of interest payables, payment and collection clearance accounts, tax payables, accrued staff costs, dormant accounts, dividend payables, provisions, and certain other liabilities.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2.1 Deposits from customers

As at June 30, 2017, the Bank's total deposits from customers increased by RMB29,011 million to RMB245,401 million, representing an increase of 13.41% as compared with the end of last year. The increase in the Bank's deposits from customers was primarily attributable to the general business growth generated by the Bank's continuous expansion of customers deposits and branch network.

The following table sets out, as at the dates indicated, the Bank's deposits from customers by product type and maturity profile of deposits.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate deposits				
Demand	89,465	36.46	77,197	35.67
Time	70,913	28.90	54,783	25.32
Sub-total	160,378	65.36	131,980	60.99
Personal deposits				
Demand	16,341	6.66	16,178	7.48
Time	50,667	20.64	44,647	20.63
Sub-total	67,008	27.30	60,825	28.11
Other deposits	18,015	7.34	23,585	10.90
Total	245,401	100.00	216,390	100.00

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2.2 Deposits from banks and other financial institutions

As at June 30, 2017, the balance of deposits from banks and other financial institutions of the Bank decreased by RMB57 million to RMB25,751 million, representing a decrease of 0.22% as compared with the end of last year, which mainly reflected the Bank had relatively adequate other sources of funds, excluding deposits from banks and other financial institutions.

4.2.3 Placements from banks and other financial institutions

As at June 30, 2017, the balance of placements from banks and other financial institutions of the Bank increased by RMB6,663 million to RMB25,769 million, representing an increase of 34.87% as compared with the end of last year. The changes in the placements from banks and other financial institutions mainly reflected the Bank's continuous expansion of source of funds so as to meet the changes in fund demand.

4.2.4 Financial assets sold under repurchase agreements

As at June 30, 2017, the Bank's financial assets sold under repurchase agreements decreased by RMB4,526 million to RMB28,725 million, representing a decrease of 13.61% as compared with the end of last year, which mainly reflected the adjustments made to the proportion of financial assets sold under repurchase agreements to the Bank's liabilities based on market liquidity and the Bank's capital needs after taking into consideration of the need for matching assets and liabilities.

4.2.5 Debt securities issued

As at June 30, 2017, the Bank's debt securities issued increased by RMB15,485 million to RMB60,145 million, representing an increase of 34.67% as compared with the end of last year, which mainly reflected the results of the Bank's issuance of interbank certificates of deposit so as to expand interbank source of funds in the first half of 2017.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.3 Shareholders' Equity

As at June 30, 2017, the Bank's total shareholders' equity increased by RMB1,212 million to RMB23,073 million, representing an increase of 5.54% as compared with the end of last year. As at June 30, 2017, total equity attributable to shareholders of the Bank increased by RMB1,096 million to RMB22,392 million, representing an increase of 5.15% as compared with the end of last year. The increase in shareholders' equity was mainly due to the increase in the Bank's profits.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Share capital	5,322	23.07	5,322	24.35
Capital reserve	3,054	13.24	3,053	13.97
Surplus reserve	1,633	7.08	1,633	7.47
General reserve	4,530	19.63	4,528	20.71
Investment revaluation reserve	3	0.01	3	0.01
Remeasurement of net defined benefit liability	(57)	(0.25)	(52)	(0.24)
Retained earnings	7,907	34.27	6,809	31.15
Total equity attributable to shareholders of the Bank	22,392	97.05	21,296	97.42
Non-controlling interests	681	2.95	565	2.58
Total shareholders' equity	23,073	100.00	21,861	100.00

5 OFF-BALANCE SHEET COMMITMENTS

The following table sets out, as at the dates indicated, the amounts of the Bank's off-balance sheet credit commitments.

	As at June 30, 2017 (Renminbi millions)	As at December 31, 2016 (Renminbi millions)
Credit commitments:		
Promissory notes	53,771	58,123
Letters of credit issued	2,505	2,984
Letters of guarantees	2,411	1,171
Unused credit card commitments	1,164	1,006
Total	59,851	63,284

In addition, as at June 30, 2017, there was no material litigation in which either the Bank or subsidiaries of the Bank is a defendant. As at the Latest Practicable Date, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments are disclosed in note "Commitments and contingent liabilities" in the financial report of this interim report.

6 ANALYSIS ON LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen credit risk management, improve credit investigation and credit approvals and to strengthen post-loan management measures to step up the efforts on collection and disposal of NPLs, so that the loan quality was generally kept at a manageable level. However, due to the changes in external operating environment, the slowdown of economic growth, the difficult operating environment for small and medium enterprises and the increase of default on loans, etc., the Bank's NPLs were facing upward pressure.

As at June 30, 2017, the balance of the NPLs of the Bank amounted to RMB1,680 million. The NPL ratio was 1.38%, up by 0.07% as compared with the end of last year.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets out, as at the dates indicated, the Bank's loans and advances to customers by the Bank's five-category loan classification.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Normal	116,624	95.63	106,383	95.76
Special mention	3,649	2.99	3,252	2.93
Substandard	1,234	1.01	1,041	0.94
Doubtful	443	0.37	415	0.37
Loss	3	—	1	—
Total loans and advances to customers	121,953	100.00	111,092	100.00
NPLs and NPL ratio⁽¹⁾	1,680	1.38	1,457	1.31

Note:

(1) NPL ratio is calculated by dividing NPLs by total loans and advances to customers.

According to the five-category loan classification system, the Bank classified its NPLs into substandard, doubtful and loss categories.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.2 Distribution of Loans and NPLs by Product Type

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

	As at June 30, 2017				As at December 31, 2016			
	Loan amount	% of total (%)	NPL amount	NPL ratio (%)	Loan amount	% of total (%)	NPL amount	NPL ratio (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Corporate loans								
Short-term loans	57,983	47.54	1,085	1.87	53,609	48.25	956	1.78
Medium and long-term loans	33,129	27.17	299	0.90	27,646	24.89	260	0.94
Discounted bills	1,957	1.61	–	–	5,022	4.52	–	–
Sub-total	93,069	76.32	1,384	1.49	86,277	77.66	1,216	1.41
Personal loans								
Personal business loans	12,555	10.29	221	1.76	11,750	10.58	196	1.67
Personal residential mortgage loans	8,660	7.10	3	0.03	6,862	6.18	3	0.04
Personal consumption loans	6,169	5.06	66	1.07	4,842	4.36	39	0.81
Automobile loans	516	0.42	2	0.39	491	0.44	–	–
Credit card balance	984	0.81	4	0.41	870	0.78	3	0.34
Sub-total	28,884	23.68	296	1.02	24,815	22.34	241	0.97
Total	121,953	100.00	1,680	1.38	111,092	100.00	1,457	1.31

In the first half of 2017, the Bank actively responded to the national policies by strengthening the adjustment of our loans structure and continuing developing our microcredit business (loans to small enterprises legal person and personal loans). At the end of the Reporting Period, the NPL ratios of corporate loans and personal loans rose to 1.49% and 1.02% respectively, mainly due to the impact of the continued economic downturn which has adversely affected the operation of enterprises in general as evidenced by overcapacity, relatively high pressure in destocking and decreases in both sales volume and prices, making it difficult for enterprises to continue with their operations. However, the loan risks of the Bank are controllable in general.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.3 Distribution of Loans and NPLs by Industry

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

	As at June 30, 2017				As at December 31, 2016			
	Loan amount	% of total (%)	NPL amount	NPL ratio (%)	Loan amount	% of total (%)	NPL amount	NPL ratio (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Wholesale and retail	33,163	27.19	400	1.21	29,898	26.91	373	1.25
Manufacturing	15,545	12.75	800	5.15	13,055	11.75	688	5.27
Construction	12,458	10.22	39	0.31	10,687	9.62	35	0.33
Real estate	9,551	7.83	–	–	8,737	7.87	–	–
Leasing and Commercial services	5,143	4.22	11	0.21	4,092	3.68	4	0.10
Water, environment and public facilities management	3,119	2.56	–	–	2,088	1.88	–	–
Agriculture, forestry, animal husbandry and fishery	2,679	2.20	43	1.61	3,620	3.26	88	2.43
Transportation, storage and postal services	2,070	1.70	8	0.39	1,361	1.23	6	0.44
Production and supply of electric and heating power, gas and water	1,629	1.34	–	–	1,391	1.25	–	–
Accommodation and catering	1,118	0.92	55	4.92	1,082	0.97	–	–
Public administration, social security and social organisations	920	0.75	–	–	914	0.82	–	–
Mining	318	0.26	4	1.26	1,509	1.36	–	–
Culture, sports and entertainment	261	0.21	–	–	210	0.19	–	–
Others	3,138	2.56	24	0.76	2,611	2.35	22	0.84
Total corporate loans	91,112	74.71	1,384	1.52	81,255	73.14	1,216	1.50
Total personal loans	28,884	23.68	296	1.02	24,815	22.34	241	0.97
Discounted bills	1,957	1.61	–	–	5,022	4.52	–	–
Total	121,953	100.00	1,680	1.38	111,092	100.00	1,457	1.31

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at June 30, 2017, the non-performing corporate loans of the Bank mainly concentrated in industries including wholesale and retail, manufacturing, accommodation and catering, and agriculture, forestry, animal husbandry and fishery, with NPL ratios of 1.21%, 5.15%, 4.92% and 1.61%, respectively.

6.4 Distribution of Loans and NPLs by Collateral

The following table sets out, as at the dates indicated, the distribution of loans and NPLs by collateral.

	As at June 30, 2017				As at December 31, 2016			
	Loan amount	% of total (%)	NPL amount	NPL ratio (%)	Loan amount	% of total (%)	NPL amount	NPL ratio (%)
	<i>(Expressed in millions of Renminbi except percentages)</i>							
Unsecured loans	9,679	7.94	4	0.04	7,660	6.90	3	0.04
Guaranteed loans	42,638	34.96	1,297	3.04	42,790	38.52	1,178	2.75
Loans secured by mortgages	37,541	30.78	355	0.95	33,254	29.93	253	0.76
Loans secured by pledges	32,095	26.32	24	0.07	27,388	24.65	23	0.08
Total	121,953	100.00	1,680	1.38	111,092	100.00	1,457	1.31

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.5 Borrowers Concentration

As at June 30, 2017, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to loan balance of any single borrower.

The following table sets out, as at June 30, 2017, the Bank's loans (in terms of loan balance) to the 10 largest single borrowers (excluding group borrowers), all of which were classified as normal.

		As at June 30, 2017		
Industry		Loan balance	% of total loans (%)	% of net capital (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Borrower A	Construction	1,297	1.06	4.11
Borrower B	Water, environment and public facilities management	990	0.81	3.14
Borrower C	Leasing and commercial services	983	0.81	3.11
Borrower D	Financial services	700	0.57	2.22
Borrower E	Manufacturing	693	0.57	2.20
Borrower F	Leasing and commercial services	645	0.53	2.04
Borrower G	Real estate	630	0.52	2.00
Borrower H	Transportation, storage and postal services	600	0.49	1.90
Borrower I	Manufacturing	600	0.49	1.90
Borrower J	Leasing and commercial services	600	0.49	1.90
Total		7,738	6.34	24.52

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.6 Overdue loans

The following table sets out, as at the dates indicated, the distribution of the Bank's loans and advances to customers by maturity.

	As at June 30, 2017		As at December 31, 2016	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Current loans	116,115	95.21	105,989	95.41
Loans past due for ⁽¹⁾ :				
1 to 90 days	3,380	2.77	3,218	2.90
91 to 360 days	1,546	1.27	1,536	1.38
361 days or more	912	0.75	349	0.31
Sub-total	5,838	4.79	5,103	4.59
Total loans	121,953	100.00	111,092	100.00

Note:

(1) Representing the principal amount of the loans of which either principal or interests was overdue.

As at June 30, 2017, the amount of overdue loans amounted to RMB5,838 million, up by RMB735 million as compared with the end of last year. Overdue loans accounted for 4.79% of the total loans, up by 0.20% as compared with the end of last year. The increase in overdue loans was mainly due to the impact of the continued economic downturn which has adversely affected the operation of enterprises in general as evidenced by overcapacity, relatively high pressure in destocking and decreases in both sales volume and prices, making it difficult for enterprises to continue with their operations. The shortage of cash flow in turn led to overdue of principal amount and interests. The Bank will continue to strengthen risks alert and monitoring, and accelerate risks elimination.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

7 BUSINESS SEGMENT REPORT

The table below sets out the Bank's total operating income by business segment for the periods as indicated.

	As at June 30, 2017		As at June 30, 2016	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking business	2,022	41.61	1,985	42.21
Retail banking business	952	19.59	701	14.91
Treasury business	1,865	38.37	1,941	41.28
Other businesses ⁽¹⁾	21	0.43	75	1.60
Total operating income	4,860	100.00	4,702	100.00

(Expressed in millions of Renminbi, unless otherwise stated)

Note:

- (1) Primarily consisted of equity investments and the corresponding income, and any other businesses that are not directly attributable to any specific reporting segment.

8 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimise its business structure and strengthen its capital management. As at June 30, 2017, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 12.08%, 8.61% and 8.59%, respectively, and up by 0.32%, down by 0.19% and down by 0.20%, respectively, as compared with the end of last year, which fulfilled the regulatory requirements provided in the Capital Administrative Measures for Commercial Banks (Provisional) (the "New Measures") issued by the CBRC for the transition period. The change in capital adequacy ratio was mainly due to the increase in risk-weighted assets resulting from the increase in size of assets of the Bank.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In accordance with the New Measures issued by the CBRC, the capital adequacy ratio of the Bank was as follows:

	As at June 30, 2017	As at December 31, 2016
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>		
Core tier-one capital		
Share capital	5,322	5,322
Valid portion of capital reserve	3,000	3,004
Surplus reserve	1,633	1,633
General reserve	4,530	4,528
Retained earnings	7,907	6,809
Valid portion of minority interests	431	363
Total core tier-one capital	22,823	21,659
Core tier-one capital deductions	(380)	(384)
Net core tier-one capital	22,443	21,275
Other tier-one capital	57	37
Net tier-one capital	22,500	21,312
Tier-two capital		
Qualifying portions of tier-two capital instruments issued	7,000	5,000
Surplus provision for loan impairment	1,945	2,080
Adjustments for tier-two capital	115	71
Net tier-two capital	9,060	7,151
Net capital base	31,560	28,463
Total risk-weighted assets	261,319	242,109
Core tier-one capital adequacy ratio	8.59%	8.79%
Tier-one capital adequacy ratio	8.61%	8.80%
Capital adequacy ratio	12.08%	11.76%

9 BUSINESS OPERATION

9.1 Corporate Banking Business

9.1.1 Corporate deposits and loans business

Corporate deposits

In the first half of 2017, the Bank proactively responded to the macroeconomic situation and the tighter financial regulation policies, and achieved a continuous growth in corporate deposits. The Bank advanced the development of investment banking business and trading and financing business to further carry forward the transformation and upgrading of its businesses. It also leveraged on its portfolio of corporate liability products and innovation capability to further enhance the comprehensive efficiency of corporate deposits. The Bank also promoted and speeded up our sales marketing to strategic customers and deeply explored the potential of customers. Further cooperation with the Henan Provincial Government and municipal governments also resulted in the continuous improvement of the quality of deposits related to financial businesses.

As of June 30, 2017, the Bank's balance of corporate deposits amounted to RMB178.383 billion, accounting for 72.69% of the total balance of all deposits, representing an increase of RMB22.820 billion or 14.67% as compared with the end of last year. Meanwhile, in 2017, the Bank proactively developed business cooperation with institutions including the Zhengzhou City Public Resources Trading Centre, the Henan Social Security Bureau, and the Department of Land and Resources of Henan Province to further strengthen the central management of financial and land-related capital and strengthened strategic customer resources to improve the overall contribution of our corporate customers.

Corporate loans

As of the end of June 2017, the Bank's balance of corporate loans amounted to RMB91.112 billion, accounting for 74.71% of the total balance of all loans, representing an increase of RMB9.857 billion or 12.13% as compared with the end of last year, which was attributable to the following efforts made by the Bank: firstly, the Bank strengthened the risks management and control, further increased the scale of resources in loan business and maintained a medium to high-speed growth of loans, in order to actively promote the development of the real economy; secondly, the Bank continued to increase credit support to quality customers and strategic customers with good development prospects in the industry.

9.1.2 Customer management and team building

Customer management

In the first half of 2017, the Bank continued to optimize its CRM work. It introduced an advanced sales process management method via the McKinsey & Co Program, enhanced the customer marketing management of the entire bank and reformed and optimized the CRM system, achieving online and intelligent analysis of the sales process management, and managed the dynamic situation of the customer marketing of the entire bank, which further strengthened our customer base, and effectively enhanced the management efficiency of our relationships with customers and customer managers. Taking advantage of our extensive network layout in Henan Province and advanced CRM methods, the Bank's number of customers continued to increase healthily.

Team building for sales teams

By introducing a hierarchical management system for corporate customer managers, the Bank promoted the accreditation evaluation of customer managers and continuously improved the performance evaluation and target management methodology for customer managers. By integrating evaluation on the performance, business standard and moral standard of customer managers, we initiated dynamic management over customer managers to further enhance the team structure and stimulate their work attitude, thereby building a professional customer manager team that is highly energetic and service-oriented with strong professional ethics. By consistently improving the management system of corporate customer managers, the Bank facilitated the continuous steady development of our businesses.

9.2 Small and Micro Enterprise Loan Business

In the first half of 2017, the Bank proactively implemented the policies and measures in relation to support of small and micro enterprises issued by the municipal and provincial governments and regulatory departments. The Bank is committed to solving the financing difficulties of small and micro enterprises by allocating more resources to them and providing comprehensive financial services for them, so as to better satisfy their financing demands.

During the Reporting Period, the Bank implemented differentiated policies to realize the rapid development of small and micro enterprises. At the beginning of 2017, the Bank carried out differentiated regional management policies, formulated the Operation Specification of Financial Credit Products for Small and Micro Enterprises in 2017, and determined the development direction with focus on the supply chain finance, data finance, business circle, park finance and technology finance.

Our small business financial service centre realized independent operation in charging of 12 small and micro enterprise sub-branches and 208 staff. As at June 30, 2017, the balance of the Bank's loans to small and micro enterprises amounted to RMB64.413 billion, representing an increase of RMB5.389 billion or 9.13% as compared with that at the beginning of the year; the number of small and micro corporate customers of the Bank was 24,614, representing a year-on-year increase of 4,966. As such, the Bank successfully met all the regulatory requirements of the "Three Minimum Thresholds".

During the Reporting Period, the Bank strived to establish the approval system for credit granting with refined management, standard business process and satisfactory service. We categorised our existing customers according to their levels and industries, and implemented differentiated credit policies on the above basis. For instance, customers are divided into the red, yellow and green lists, each of which is entitled to different credit policies. Customers in the green list are entitled to fast approval and the credit facilities such as new borrowings upon repayment of old ones, new borrowings for repayment of old borrowings, credit extension and revolving credit granting; the credit granting for customers in the yellow list is subject to certain conditions, and the credit granting for customers in the red list is restricted and will be gradually reduced and withdrawn.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Meanwhile, the Bank transformed its products and businesses, developed two main key products, namely, “Pledge of House for Loans” (房抵貸) and “Senior Loans” (優先貸), and established the pyramid product structure. Our mobile app for “Pledge of House for Loans” (房抵貸) was formally launched for online loan application and real-time appraisal, through which customers can appraise the house value online for free via the mobile app, and submit personal information to the credit system of small enterprises. Our internal policies for customer manages can satisfy customers' demands, and open a channel for the Bank to obtain customers for the online “Pledge of House for Loans”(房抵貸).

Following the working principle of “prior judgment, differentiated management, and rapid processing”, the Bank realized the “control of newly increased bad loans and reduction of existing non-performing assets” by enhancing the internal management, strengthening the scientific support, and building the capital management platform during the Reporting Period. Firstly, the development of functions of Phase I of the Small and Micro Intensive Financial Management Enhancement Program was finished, and the program was launched for online operation, which realized the risks view sharing function and the display of previous situations where customers are not suitable for granting of loans. Secondly, the contract “double recording” system was initiated. Due to the forgery problems relating to loans, the Bank launched the “double recording” system for the online contract signing on June 2, 2017, where the authenticity of customer identity can be verified and recorded before signing the contract, and the contract signing process will be video and audio recorded. The headquarter checks each loan before granting, supervises the operation of the customer manager in compliance with regulations, and effectively prevents the risks of operation and public opinions. Thirdly, the management of maturing loans was strengthened. The Bank graded customers with maturing loans, continued to promote the renewal management, strictly controlled the increase in risk assets and enhanced the quality of assets.

9.3 Personal Banking Business

9.3.1 Personal deposits

As a local financial institution in Zhengzhou, the Bank adhered to our unique positioning as a “boutique bank for residents” with local residents as our core. Focusing on the main business theme of serving personal customers, the Bank continuously enriched the variety of products and businesses, deepened the integration of retail products and services with their channels, enhanced comprehensive service quality, improved the comprehensive service capability of the team, integrated the consumer finance, wealth management with refined management of individual customers, and continuously upgraded the quality of our financial services closely related to local residents. The Bank also strived to enhance the quality of business development and the influence of our quality to constantly motivate the development of our personal deposit business. Meanwhile, the Bank also actively responded to the interest rate marketization, constantly optimized the pricing strategy of deposit interest rate on the basis of market and customer demands, and improved the ability of deposit self-pricing and risk management. As at June 30, 2017, the Bank’s total personal deposits amounted to RMB67.018 billion, representing an increase of RMB6.191 billion or 10.18% from the end of last year. The Bank’s personal deposit business was ranked the top among its regional peers in terms of total balance, increment and market share.

9.3.2 Personal loans

In the first half of 2017, the Bank served the local residents, by greatly developing the consumer finance business, and successively launched the “Utilities Disbursement” (派生活) consumption loans, such as “Pledge of House for Loans” (房抵貸) and “Senior Loans” (優先貸). Among them, credit loan products like “Senior Loans” (優先貸) are characterized as “fast, easy and simple” by providing convenient financial service for consumers; and “Pledge of House for Loans” (房抵貸) has been continuously optimized in terms of business mode, to shorten the loan granting period and enhance the usage experience of financial consumers. In addition, the Bank made innovations in the business model of consumer finance, and launched the “Micro Happy Installment” (微樂分) business jointly with Tencent, providing simple and convenient online handling experience for credit card users. As at June 30, 2017, the Bank’s total personal loans amounted to RMB28.884 billion, representing an increase of RMB4.069 billion or 16.40% from the beginning of the year.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.3.3 Bank cards

In addition to the basic version of debit cards named “Shangding Card” (商鼎卡), the Bank also issued special themed card of “Xinxiang Bus One-Card” (新鄉公交一卡通) in the first half of 2017, with a steady growth of new cards issued. As at June 30, 2017, the Bank had issued a total of 4,293,700 debit cards, with 303,300 new cards issued as compared with December 31, 2016.

As at June 30, 2017, the Bank had issued a total of 87,520 credit cards of “Shangding Card” (商鼎卡) with realized revenue of RMB31 million.

9.4 Treasury Business

9.4.1 Money market transactions

During the Reporting Period, China’s economy continued with the steady development towards better results with recovered overseas market demand, better enterprise revenues, prosperous real estate market, better than expected economic growth, slower rise in non-performing assets and lessened pressure of exchange rate depreciation and capital outflow since the second half of 2016. Meanwhile, new changes such as higher interest rate level and decreased bond issuance also took place. Since the end of March 2017, financial regulatory institutions including the CBRC and the CIRC successively issued documents to implement deleveraging policies in the finance industry. The CBRC successively issued eight documents to require the special treatment of “three violations”, “three interest arbitrages” and “four improper behaviors” with the focus of supervision on the interbank business, financing business and investment business in 2017. The Central Bank, the CBRC and the CIRC further clarified the concept and policy of “deleveraging, risk prevention and interest arbitrage control” in the financial regulation. Meanwhile, affected by the tighter global liquidity, steady and tighter monetary policies and strengthened financial regulation brought forth by the increase in interest rate by the U.S. Federal Reserve, the overall liquidity of China’s financial system was in a tight balance.

During the Reporting Period, the Central Bank maintained steady and neutral monetary policies. According to the capital situation of the currency market and cost fluctuations in the first half of 2017, the Bank aggressively grasped market opportunities to improve profitability while ensuring liquidity. As at June 30, 2017, the total balance of the Bank’s deposits and placements with banks and other financial institutions and financial assets held under resale agreements amounted to RMB52.627 billion, representing 12.60% of the Bank’s total assets; and the total balance of the Bank’s deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB80.245 billion, accounting for 20.34% of the Bank’s total liabilities.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.4.2 Investment in securities and other financial assets

During the Reporting Period, the Bank closely monitored changes in the economic environment and financial market, strengthened the study and tendency analysis of changes in the capital market, external regulatory policies and macroeconomic environment, took advantage of favorable opportunities to increase the active trading of bonds in the market, prudently managed bond asset allocation, promptly adjusted the direction of capital investment and the development strategy of interbank liabilities, captured proper business opportunities and tried our best to lift the interest margin of the capital investment based on risk control. At the same time, the Bank increased the capital available for investment by continually enriching and timely adjusting the absorption ways of various types of deposits, and improved the efficiency of capital utilization by continually enriching the variety of investment business and strengthening the research on the innovative business.

As at June 30, 2017, the total investment bonds, investment products under trust schemes, investment products managed by securities companies and other securities financial assets of the Bank amounted to RMB183.825 billion, representing an increase of RMB681 million or 0.37% as compared with the end of the previous year. Specifically, the total amount of the Bank's bond investments was RMB70.652 billion, representing a year-on-year increase of 18.66%, and the total amount of the Bank's investment products under trust schemes and investment products managed by securities companies was RMB89.884 billion, representing a year-on-year decrease of 8.16%.

9.4.3 Wealth management business

As at June 30, 2017, the Bank had 223 ongoing wealth management products with a total size of RMB50.452 billion, representing a decrease of RMB1,357 million or 2.62% as compared with the beginning of the year, which was mainly due to the assessment pressure of MPA. In the first half of 2017, the daily average size of ongoing wealth management products amounted to RMB54.65 billion, representing an increase of RMB17.35 billion or 46.51% as compared with the beginning of the year.

During the Reporting Period, the Bank smoothly operated six series of closed wealth management products, namely, "Dingcheng"(鼎誠), "Jujin" (聚金), "Chang Xiang"(暢享), "Juxin"(聚鑫), "Tonghui"(同惠) and "Jucai"(聚財), and three series of open-ended wealth management products, namely, "Weekly Profit"(週週盈), "Monthly Profit" (月月盈) and "Quarterly Profit" (季季盈). The Bank issued a total of 214 wealth management products with accumulated proceeds of RMB42.61 billion, representing an increase of 39.87% as compared with the corresponding period of last year. On average, the Bank issued 36 wealth management products with accumulated proceeds of RMB7.1 billion per month.

9.5 Distribution Channels

9.5.1 Physical outlets

During the Reporting Period, the Bank's headquarter was in Zhengzhou, the PRC and it was approved to operate 10 branches in Nanyang, Xinxiang, Luoyang, Anyang, Xuchang, Shangqiu, Luohe, Xinyang, Puyang and Pingdingshan. As at June 30, 2017, a total of 137 sub-branches were established within Henan Province. The Bank operates mainly in Henan Province of the PRC.

As at June 30, 2017, the Bank had a total of 145 intra-branch self-service facilities, including 78 outlets in Zhengzhou urban districts, 10 branches, and 57 county outlets. The Bank also had a total of 160 extra-branch self-service facilities in Henan Province, including 85 outlets in Zhengzhou urban districts and 75 county outlets. The Bank's self-service facilities provide 24-hours convenient service for our customers. Meanwhile, the combination of extra-branch and intra-branch self-service facilities formed a sound geographical coverage.

9.5.2 Electronic banking

Self-service banking

The Bank's self-service banking infrastructure has always maintained innovation as its development trend, and the business functions and business types are constantly enriched. The services introduced in the first half of 2017 include face-recognition withdrawals, financial services, IC card contactless withdrawals, Apple pay withdrawals functions developed on automated teller machines and automatic cash withdrawal and deposit machines; the electronic signature function developed at our smart counters, which constantly enhanced the customers' experience, and helped the Bank win a good reputation. As at June 30, 2017, the Bank had 1,382 sets of self-service banking facilities, including 364 automated teller machines, 381 automatic cash withdrawal and deposit machines (including 38 Yintietong (銀鐵通)), 218 smart counters, 252 online banking terminals, 166 easy payment terminals and one "QuikTrans" teller (快窗). In the first half of 2017, the total number of cash withdrawal and deposit transactions amounted to 5,180,000, representing a year-on-year decrease of 5.47%, while the transaction amount amounted to RMB9.871 billion, representing a year-on-year increase of 6.14%.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Mobile banking

During the Reporting Period, the Bank's mobile banking segment had developed more comprehensive banking functions, including basic financial management functions such as account management, transfer and remittance, fund purchase, Ritianli (日添利), certificates of deposit subscription, time deposit and current deposit conversion, contracted withholding, Yinxintong (銀信通) contracting, Huideli (惠得利) contracting, personal loan comprehensive inquiries, lending and repayment of revolving loans, credit card management, quick payment management; as well as newly developed features such as face-recognition registration, QR code withdrawals, Cloud Flash Pay (雲閃付), and capital collection, etc. In addition, by adhering to the Bank's positioning as a "boutique banking for residents", our mobile banking segment targets to provide certain life related services closely linked with financial products, such as hospital appointment, charitable donation, ticket booking, school payment, Didi taxi, and ETC top-up, etc.

As at June 30, 2017, our mobile banking segment registered 135,100 new accounts, representing a year-on-year increase of 25.32%, while the number and amount of transactions amounted to 1,210,000 and RMB17.6 billion, respectively, representing a year-on-year increase of 87.3% and 207.8%, respectively; the total number of mobile banking accounts of the Bank reached 578,000 while the aggregate number and amount of transactions amounted to 3,919,900 and RMB37.935 billion, respectively.

Online banking

As at June 30, 2017, our online banking segment registered 123,600 new accounts, representing a year-on-year increase of 96.5%, among which 120,700 were new personal accounts and 2,800 were new corporate accounts. The number of transfer transactions reached 1,824,100, recording a year-on-year decrease of 7.02%, while the transaction amount amounted to RMB249.544 billion, representing a year-on-year increase of 59.83%. As at June 30, 2017, the total number of online banking accounts of the Bank reached 565,200, among which 542,400 were personal accounts and 22,800 were corporate accounts.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Online payment

As at June 30, 2017, 1,453,000 new users registered on our online payment platform, representing a year-on-year increase of 1,589.53%, while the number and amount of transactions amounted to 7,786,700 and RMB3.499 billion, respectively, representing a year-on-year increase of 265.74% and 210.75%, respectively. The aggregate number of users on our online payment platform reached 4,354,100 while the aggregate number and amount of transactions amounted to 18,501,300 and RMB7.865 billion, respectively.

During the Reporting Period, the Bank's online payment service had covered payment approach of mainstream payment providers such as Alipay (支付寶), Tenpay (財付通), Baifubao (百付寶), JD.com Online (京東網銀在線) and Yifubao (易付寶), which provided diversified payment means for the Bank's cards, expanded the customer base of the Bank's cards, as well as enhanced customer's payment experience.

Telephone banking

During the Reporting Period, we offered 7 days x 24 hours telephone banking services to our customers through the nation-wide customer service hotline 4000-967585. Our services include financial business consulting, transaction inquiries, loss reporting, bill payment, loan business inquiries, investment and wealth management services, PIN services, credit card services, outbound calls and customer caring, etc. The customer service centre continued to enhance users' experience and actively expanded the business scope based on the customers' needs. In the first half of 2017, our telephone banking services handled a total of 1.2356 million cases.

WeChat banking

As at June 30, 2017, the number of bank accounts linked to the Bank's WeChat banking was 197,200, in which the number of newly linked bank accounts was 132,300 for the first half of 2017. On May 18, 2017, the Bank updated the version of the WeChat banking and the updated version could be linked with multiple bank cards and the functional business module was rearranged. During the Reporting Period, the specific functions included details inquiry service, account balance inquiry service, account alert, surrounding network, available WiFi at our network and network reservation, personal loans inquiry services and products display, wealth management products inquiry and purchase, union card module, bills checking, instalment repayments and online applications of credit cards, etc.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Ding Rong Yi (鼎融易)

During the Reporting Period, the Bank's internet financial service platform "Ding Rong Yi"(鼎融易) was fast growing. We successfully established diversified channels with financial services, utilities services and social networking. With internet finance as the centre, Ding Rong Yi (鼎融易) provided services to cardholders of the Bank and other banks. It consisted of three service segments, namely Ding Rong Yi direct-operated banking, Ding Rong Yi payment gateway and Ding Rong Yi financial e-commerce, operating four internet services of personal computer and mobile investment and wealth management, e-financing, utilities payment and e-commerce services. As at June 30, 2017, the total number of Ding Rong Yi (鼎融易) customers reached 327,500, with the total number of transactions of 135,800 and total transaction amount of RMB5.568 billion.

9.6 Operations of Subsidiaries

9.6.1 Operations of subsidiaries

As at the end of the Reporting Period, the Bank held 50.2% equity interests in Fugou Zhengyin County Bank Co., Ltd. ("**Fugou County Bank**"), a subsidiary of the Bank with a registered capital of RMB60 million, the principal businesses of which include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) debt-card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent; and (9) other businesses approved by the banking regulatory authorities in the PRC (involving the operations authorised under valid permits or licensed operations).

Fugou County Bank is featured by its short decision-making chain, flexible credit policy, and the capability to adapt its operation process to match the financial needs of the agriculture industry. Up to June 30, 2017, Fugou County Bank had accumulated total assets of RMB429 million, total loans of RMB211 million, total deposits of RMB268 million, the NPL ratio was zero, and all the major indicators were in compliance with the regulatory requirements.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at the end of the Reporting Period, the Bank held 51.5% equity interests in Xinmi Zhengyin County Bank Co., Ltd. (“**Xinmi County Bank**”), a subsidiary of the Bank with a registered capital of RMB100 million, the principal businesses of which include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) debt-card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

Xinmi County Bank upholds the service tenet of “serving Xinmi, the three rural sectors (三農) and small and micro businesses”. As of June 30, 2017, Xinmi County Bank had accumulated total assets of RMB669 million, total loans of RMB553 million, total deposits of RMB435 million and the NPL ratio was 6.21%, all major indicators were in compliance with the regulatory requirements.

At the end of the Reporting Period, the Bank established Jiuding Financial Leasing Company with an initial registered capital of RMB1 billion and its shareholding of 51% was held by the Bank. The establishment of Jiuding Financial Leasing Company was approved by the CBRC on February 5, 2016. The operation approval for Jiuding Financial Leasing Company was granted by the CBRC Henan Bureau on March 18, 2016 and has officially been in operation since March 23, 2016. For details of the approval for the establishment and official opening of Jiuding Financial Leasing Company, please refer to the announcements of the Bank published on February 17, 2016 and March 23, 2016. The principal businesses of Jiuding Financial Leasing Company include: (1) financial leasing business; (2) outward or inward transfer of financial leasing assets; (3) fixed income securities investment business; (4) acceptance of leasing deposits from leasees; (5) intake of fixed deposits with maturity of three months or above from non-bank shareholders; (6) interbank borrowings; (7) borrowings from financial institutions; (8) offshore borrowings; (9) leasing asset sale and disposal business; (10) economic consultancy; and (11) other businesses approved by the CBRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Since its operation of business on March 23, 2016, Jiuding Financial Leasing Company has upheld the business philosophy of “innovative, efficient, synergistic and stable operation”, and adhered to the strategic positioning of “intensively developing Zhengzhou, consolidating its position in Henan, penetrating to other regions in the PRC, focusing on specialization and featured businesses”. As of June 30, 2017, the total assets of Jiuding Financial Leasing Company amounted to RMB11.071 billion, leasing investment accumulated to RMB11.457 billion and net profit amounted to RMB109 million, and the NPL ratio was zero.

9.6.2 Operations of Investee Companies

As at the end of the Reporting Period, the Bank held 18.53%, 30.0% and 20.0% equity interests in Zhongmu Zhengyin County Bank Co., Ltd. ("**Zhongmu County Bank**"), Yanling Zhengyin County Bank Co., Ltd. and Xinzheng Zhengyin County Bank Co., Ltd., respectively. The total asset value of the three county banks reached RMB15.951 billion, total deposits reached RMB14.383 billion and total loans reached RMB10.075 billion.

Since the establishment of Zhongmu County Bank in 2009, Zhengyin County Bank has been committed to providing services to the three rural sectors (三農) with a market position targeting on small- and medium-size customers. Led by the gradual expansion of the asset size, a more balanced structure of deposits and loans and stronger support to the agriculture sector, the return on equity improved every year. Therefore, Zhongmu County Bank was regarded as one of the leading industry players among all county banks in the country in terms of comprehensive strength.

9.7 Risks Management

During the Reporting Period, the Bank further improved its top-level design and transmission mechanism of risks governance, coordinated the establishment of relevant risk systems and emphasized on the development of professional talents and technology in key risks to continuously enhance our overall risk management capabilities.

9.7.1 Credit Risk

Credit risk refers to the risk of loss from the failure by an obligator or counterparty to meet its obligations in accordance with agreed terms. We are exposed to credit risk primarily through our loan portfolio, investment portfolio, guarantees and other on- and off-balance sheet credit risk exposures.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

We have built an all-round credit risk management infrastructure to cover our entire credit business processes, with established policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. We have established a bank-wide standardised authorisation and credit extension management system. We seek to improve our overall credit risk management capabilities through building up an internal customer rating system, updating internal rating model, upgrading credit risk management information system, and further tightening our credit review and monitoring. In the first half of 2017, in accordance with the development strategy and risk preference of the Bank, we had set up 36 limit indexes for four major risks, namely credit risk, market risk, liquidity risk and concentration risk.

9.7.2 Market Risk

Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market prices. We are exposed to market risks through our banking portfolio and trading portfolio. The primary risk associated with our trading portfolio is fluctuations in the market value of our trading positions, which are affected by movements in observable market variables such as interest rates and exchange rates. We seek to control potential market losses within acceptable limits based on our risk appetite while we seek to maximise risk-adjusted returns.

Our organisational structure for market risk management covers the front, middle and back offices. The Board bears the ultimate responsibility for supervising our market risk management. Our senior management is responsible for the implementation of market risk management strategies and policies approved by our Board. Market risk management is led by the risk management department, while the functions of market risk management are actually distributed among the risk management department, the financial planning department, the financial markets department, the investment banking department, the transaction banking department and the asset management department. To effectively perform its market risk management function, market risk management personnel have been designated to the financial markets department and asset management department to participate in the middle office management of the trading business. Our market risk management consists of the identification, measuring, monitoring and control of market risk. We also set different authorised risk limits for various products based on factors such as our overall market risk tolerance level, business strategy as well as market conditions for specific products. We set different exposure limits and employ different quantitative measures to manage different types of market risk arising from our banking book and trading book.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Market risk associated with banking book

1. Interest rate risk

Interest rate risk associated with our banking book primarily refers to the risk of loss caused to the overall earnings and economic value of banking book due to adverse movements in various factors such as interest rate level and maturity mix. By carrying out proactive management, appropriate hedging and other means, the Bank keeps the negative impact of interest rate fluctuations on the earnings and economic value of banking book under control within an acceptable limit.

2. Exchange rate risk

Exchange rate risk refers to the risk arising from the time and regional differences in exchange rate fluctuations as well as the mismatch between currency and maturity mix. We are exposed to exchange rate risk primarily through trading risk and conversion risk. Trading risk refers to the risk of loss caused to the Bank due to exchange rate fluctuations when customers are carrying out spot or forward foreign exchange trading, lending, investment and exchange activities. Conversion risk refers to foreign exchange gains and losses due to exchange rate fluctuations when assets and liabilities in foreign currencies in the Bank's balance sheet are converted into Renminbi at the end of an accounting period.

Market risk associated with trading book

Market risk associated with our trading book mainly refers to the changes in the asset value of the financial products in the trading book caused by the changes in market interest rates. By setting the interest rate-sensitive indicators, cut-loss limits and other market risk limits, the Bank revalues the market value of the assets in the trading book on a daily basis and conducts stress tests on a regular basis so that the market risk associated with the trading book is overall controllable.

9.7.3 Operational Risk

Operational risk refers to the risk of loss that may be incurred due to inadequate or failed internal procedures, personnel or information technology systems, or external events. We are exposed to operational risk primarily through internal and external frauds, worksite safety failures, business interruptions, damage of tangible assets and failure in information technology system. Our operational risk management objectives are to establish a sound operational risk management framework to carry out effective management of operational risks and to minimise losses from operational risk.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Bank continuously promotes the construction of operational risk management system and improves three operational risk tools and capital measurement. We have established a sound operational risk reporting system to submit reports to the Board, the Board of Supervisors and senior management on a timely basis. Operational risk inspections are conducted to prevent risk hazards and significant operational risks in key areas.

9.7.4 Liquidity Risk

Liquidity risk refers to the risk of failure to acquire sufficient funds in time or failure to acquire sufficient funds at a reasonable cost to fulfil payment obligations. Factors affecting our liquidity include the maturity mix of our assets and liabilities and changes to banking regulations, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. We are exposed to liquidity risk primarily in the funding of our lending, trading and investment activities, as well as in the management of our cash flow positions. The objectives of our liquidity risk management are to ensure the availability of adequate funding at all times to meet our payment obligations and fund our business operations on a timely basis.

Our organisational structure for liquidity risk management is formed on the basis of separation of the responsibilities for the formulation, implementation and supervision of liquidity risk management policies and procedures. The Board bears the ultimate responsibility for our liquidity risk management. The risk management committee under the Board is responsible for approving the liquidity risk management policies and strategies developed by the senior management. The asset and liability management committee under our senior management is responsible for the management of liquidity risk across the Bank, specifically, responsible for formulating our liquidity management policies and leading the implementation of these policies. The Board of Supervisors is responsible for supervising the Board and senior management in carrying out liquidity risk management on a day-to-day basis. Relevant departments, such as the financial planning department, the financial markets department, the interbank department and the asset management department, are responsible for liquidity risk management on a day-to-day basis.

We manage our liquidity risk mainly through monitoring the maturities of our assets and liabilities and step up our efforts to improve our liquidity risk management. We have implemented the heightened regulatory requirements through closely monitoring various liquidity ratios, formulating contingency plans and strengthening liquidity risk management and stress tests. At present, we manage our liquidity risk through liquidity stress tests, liquidity limit system, the second generation of China National Advanced Payment System, position reporting and certain other tools. We are developing the cash flow analysis and management tools.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.7.5 Information Technology Risk

Information technology risk refers to the operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of our use of information technology. Our objectives for information technology risk management are to identify, assess, monitor and control information technology risks by establishing an effective mechanism to operate our business in a safe, continuous and stable environment. We seek to operate our business in a safe and robust information technology environment and drive business innovation with advanced information technologies. The information technology management committee under our senior management is responsible for coordinating on the performance of various responsibilities for information technology management, to ensure the allocation of adequate human and financial resources, and maintaining a stable and secure information technology environment. The information technology department is responsible for the implementation of information technology risk management policies and procedures.

Under the leadership of the Board and senior management, we have established a tiered information technology risk management framework based on the “three lines of defence”, namely, the business, risk management and audit. In addition, we seek to establish effective infrastructure to identify, monitor and control information technology risk and facilitate the safe, continuous and stable operation of our information technology system and to improve our sustainability. We establish a comprehensive information technology risk management system through the research and development, operation and maintenance of information system, management of information security and business continuity. In respect of the operation and maintenance management of our information technology system, we seek to improve the overall stability and availability of our information technology system by improving its structure and preventive maintenance. In respect of information security, we seek to build up an information security control mechanism and technology protection methodologies through establishing effective processes for management of user authentication and access control, rigorously implementing standard operation processes, managing transactions and activity logs and employing encryption techniques. In respect of business continuity, we have built a local application disaster recovery centre in Zhengzhou and a non-local disaster recovery data centre in Dongguan to ensure our business continuity and reliability.

In the first half of 2017, the Bank further defined day-to-day business continuity and emergency organization framework, setting up a leading group of the Bank responsible for emergencies, a business continuity management committee and a leading group for emergencies for our branches; and formulated and issued the Plans for Business Continuity and the Overall Emergency Plan for Business Continuity.

9.7.6 Reputational Risk

Reputational risk refers to the risk of negative publicity and comments on the Bank due to our operations, management and other activities or external events. Our objectives for reputational risk management are to identify, monitor, control and eliminate reputational risk by establishing a positive, reasonable and effective mechanism for reputational risk management in order to build and maintain our good corporate image and boost our sustainable development.

We have established a tiered organisational framework for reputational risk management. The Board bears the ultimate responsibility for reputation risk management and our senior management is responsible for our reputational risk management. We have set up a reputational risk management committee under our senior management to ensure the normal and effective operation of the reputational risk management system. The general office at the headquarter takes the lead in managing our reputation risk and is responsible for the day-to-day management of reputational risk.

9.7.7 Implementation of the New Basel Capital Accord

Since the beginning of 2013, the Bank has been committed to implementing the New Basel Capital Accord by selecting a development plan which matches the Bank's business strategy, scale and complexity, and by actively formulating and implementing the Foundation Internal Rating Based Approach for capital measurement in accordance with the New Measures and other regulatory policies. By enhancing corporate governance structure, establishing a sound risk management system and improving information technology system, the Bank aimed to meet all the regulatory requirements. Currently, the Bank has completed the establishment of an application scorecard system for the retail credit business, a collateral management system, a standard approach to operational risk, a governance, risk and compliance system, an interest rate risk system for bank accounts, and completed the consultation on liquidity risk management, the development of a credit rating model for debts of the treasury business and the development of a scoring model for credit cards. Meanwhile, the Bank is active in pushing forward other projects such as the standard approach to market risk, risk-weighted assets and an internal capital adequacy assessment process.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1 CHANGES IN SHARE CAPITAL OF THE BANK

	December 31, 2016		Changes during the Reporting Period	June 30, 2017	
	Number (Shares)	Proportion (%)	Number (Shares)	Number (Shares)	Proportion (%)
Domestic Shares	3,803,931,900	71.48	0	3,803,931,900	71.48
H Shares	1,518,000,000	28.52	0	1,518,000,000	28.52
Total number of Shares	5,321,931,900	100.00	0	5,321,931,900	100.00

2 INFORMATION ON SHAREHOLDERS

2.1 Total number of Shareholders during the Reporting Period

As of June 30, 2017, the Bank had a total of 3,624 holders of Domestic Shares.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

2.2 Shareholdings of Shareholders

Shareholdings of the Top 10 Shareholders of Non-Overseas Listed Domestic Shares

As at June 30, 2017, direct shareholdings of the top 10 Shareholders of non-overseas listed Domestic Shares were as follows:

Number	Name of Shareholders	Nature of Shareholders	No. of Shares held at the end of the period (Shares)	Shareholding percentage of total no. of issued Shares (%)	Type of Shares	Pledged or frozen (Shares)
1	Zhengzhou Finance Bureau (鄭州市財政局)	State-owned	490,904,755	9.22	Domestic Shares	220,900,000
2	Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic non-state-owned legal person	262,000,000	4.92	Domestic Shares	262,000,000
3	Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic non-state-owned legal person	250,000,000	4.70	Domestic Shares	124,999,990
4	Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic non-state-owned legal person	226,000,000	4.25	Domestic Shares	225,000,000
5	Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	State-owned legal person	215,678,764	4.05	Domestic Shares	-
6	Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Domestic non-state-owned legal person	239,426,471	4.50	Domestic Shares	-
7	Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic non-state-owned legal person	199,046,474	3.74	Domestic Shares	149,500,000
8	Bridge Trust Co., Ltd. (百瑞信託有限責任公司)	State-owned legal person	114,697,149	2.16	Domestic Shares	-
9	Henan Shengrun Holding Group Co., Ltd. (河南盛潤控股集團有限公司)	Domestic non-state-owned legal person	100,000,000	1.88	Domestic Shares	-
10	Henan Masahiro Properties Limited (河南正弘置業有限公司)	Domestic non-state-owned legal person	100,000,000	1.88	Domestic Shares	49,999,990

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Interests and short positions of substantial Shareholders and other persons in the Shares and underlying Shares

Based on the knowledge of the Directors or chief executive of the Bank, as at June 30, 2017, the following persons, other than Directors, Supervisors and chief executive of the Bank, had, or were deemed or taken to have interests and short positions in the Shares and underlying Shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Substantial Shareholders	Class of Shares	Long/Short Positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of	Percentage of total issued share capital (%)
					issued share capital of the relevant class of Shares (%)	
Zhengzhou Finance Bureau (鄭州市財政局)	Domestic Shares	Long	Beneficial owner Interest of controlled corporation ¹	656,163,737	17.25	12.33
Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	262,000,000	6.89	4.92
Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ²	262,000,000	6.89	4.92
ZHANG Xinya (張欣雅)	Domestic Shares	Long	Interest of controlled corporation ²	262,000,000	6.89	4.92
Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	250,000,000	6.57	4.70
Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
ZHANG Huiqi (張惠琪)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Domestic Shares	Long	Beneficial owner	239,426,471	6.29	4.50

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholders	Class of Shares	Long/Short Positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued share capital of the relevant class of Shares (%)	Percentage of total issued share capital (%)
Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁴	239,426,471	6.29	4.50
Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁴	239,426,471	6.29	4.50
Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Domestic Shares	Long	Beneficial owner Interest of controlled corporation ⁵	329,195,683	8.65	6.19
Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic Shares	Long	Beneficial owner ⁶	226,000,000	5.94	4.25
DU Liling (杜麗玲)	Domestic Shares	Long	Interest of controlled corporation ⁷	226,000,000	5.94	4.25
WANG Meilan (王梅蘭)	Domestic Shares	Long	Interest of controlled corporation ⁷	226,000,000	5.94	4.25
Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	Domestic Shares	Long	Beneficial owner ⁸	215,678,764	5.67	4.05
Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic Shares	Long	Beneficial owner ⁹	199,046,474	5.23	3.74
China Goldjoy Securities Limited	H Shares	Long	Custodian	289,178,000	19.04	5.43
Hong Kong Oriental Sage Limited (香港東智有限公司)	H Shares	Long	Beneficial owner	254,500,000	16.77	4.78
Oriental Sage Limited (東智有限公司)	H Shares	Long	Interest of controlled corporation ¹⁰	254,500,000	16.77	4.78
China Goldjoy Credit Limited	H Shares	Long	Person having a security interest ¹¹	111,500,000	7.34	2.10
Stellar Result Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹¹	111,500,000	7.34	2.10

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholders	Class of Shares	Long/Short Positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued share capital of the relevant class of Shares (%)	Percentage of total issued share capital (%)
Goldjoy Holding Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹¹	111,500,000	7.34	2.10
Great Sphere Developments Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹²	184,302,000	12.14	3.46
China Goldjoy Group Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹³	184,302,000	12.14	3.46
Tinmark Development Limited	H Shares	Long	Person having a security interest Interest of controlled corporation ¹³	184,302,000	12.14	3.46
YAO Jianhui (姚建輝)	H Shares	Long	Person having a security interest Interest of controlled corporation ¹³	184,302,000	12.14	3.46
Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司)	H Shares	Long	Interest of controlled corporation ¹⁴	129,000,000	8.50	2.42
WEI Lidong (尉立東)	H Shares	Long	Interest of controlled corporation ¹⁴	129,000,000	8.50	2.42
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司)	H Shares	Long	Beneficial owner	100,000,000	6.58	1.88
Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholders	Class of Shares	Long/Short Positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued share capital of the relevant class of Shares (%)	Percentage of total issued share capital (%)
Zhengzhou Airport Zone Xinggang Investment and Development Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司))	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司))	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88
WAN Yongxing (萬永興)	H Shares	Long	Interest of controlled corporation ¹⁵	100,000,000	6.58	1.88

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholders	Class of Shares	Long/Short Positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of	Percentage of total issued share capital
					issued share capital of the relevant class of Shares (%)	
Zhengzhou Zhengdong Construction Investment Corporation (鄭州市鄭東新區建設開發投資總公司)	H Shares	Long	Beneficial owner ¹⁶	100,000,000	6.58	1.88
Henan Hongbao Group Company Limited (河南鴻寶集團有限公司)	H Shares	Long	Beneficial owner	99,000,000	6.52	1.86
YUAN Guibao (袁桂寶)	H Shares	Long	Interest of controlled corporation ¹⁷	99,000,000	6.52	1.86

¹ These 656,163,737 Shares are directly or indirectly held by Zhengzhou Finance Bureau (鄭州市財政局) including 490,904,755 Shares directly held by Zhengzhou Finance Bureau (鄭州市財政局), 65,258,982 Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), 50,000,000 Shares held by Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and 50,000,000 Shares held by Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) are directly or indirectly wholly-owned by Zhengzhou Finance Bureau (鄭州市財政局). By virtue of the SFO, Zhengzhou Finance Bureau (鄭州市財政局) is deemed to be interested in the Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). FAN Yutao (樊玉濤), the non-executive Director of the Bank, is the deputy Director of Zhengzhou Finance Bureau (鄭州市財政局).

² Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) is wholly-owned by Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司), which in turn is owned by ZHANG Xinya (張欣雅) as to its 80% equity interests. By virtue of the SFO, both Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) and ZHANG Xinya (張欣雅) are deemed to be interested in the Shares held by Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司). The daughter of ZHANG Xinya (張欣雅), Ms. XU Jingnan (徐靜楠), being above the age of 18, acts as the vice chairlady of Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司). She was elected as our non-executive Director at the 2016 AGM of the Bank held on 19 May 2017, but her qualification of directorship is still subject to the review by the CBRC Henan Bureau.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- ³ Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) is owned by Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) as to 97.8%. Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) is in turn owned by ZHANG Huiqi (張惠琪) as to 90%. By virtue of the SFO, Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) and ZHANG Huiqi (張惠琪) are deemed to be interested in the Shares held by Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司). ZHANG Huiqi (張惠琪) is the daughter, being above the age of 18, of ZHANG Jiangguo (張敬國), our non-executive Director.
- ⁴ Zhongyuan Trust Co., Ltd. (中原信託有限公司) is owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) as to approximately 46.43% and 31.91%, respectively. Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) is owned by Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) as to approximately 45.09%. By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司), Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) and Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) are deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). JI Hongjun (姬宏俊), our non-executive Director, is the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- ⁵ These 329,195,683 Shares are directly or indirectly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司), including 89,769,212 Shares directly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and 239,426,471 Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司) which is owned as to approximately 46.43% by Henan Investment Group Co., Ltd. (河南投資集團有限公司). By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司) is deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- ⁶ MA Jinwei (馬金偉), our non-executive Director, is the general manager of Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
- ⁷ Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) is owned as to 50% and 50% by DU Liling (杜麗玲) and WANG Meilan (王梅蘭). By virtue of the SFO, each of DU Liling (杜麗玲) and WANG Meilan (王梅蘭) is deemed to be interested in the Shares held by Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
- ⁸ LIANG Songwei (梁嵩巍), our non-executive Director, is the chairman of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司).
- ⁹ Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) is owned as to 90% by ZHU Zhihui (朱志暉), our Supervisor, and 10% by his spouse, WANG Linhui (王林輝). By virtue of the SFO, ZHU Zhihui (朱志暉) is deemed to be interested in the Shares held by Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司). ZHU Zhihui (朱志暉), our Supervisor, is the chairman of the board of directors of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司).
- ¹⁰ These 254,500,000 Shares are directly held by Hong Kong Oriental Sage Limited (香港東智有限公司), which is wholly-owned by Oriental Sage Limited (東智有限公司). By virtue of the SFO, Oriental Sage Limited (東智有限公司) is deemed to be interested in the Shares held by Hong Kong Oriental Sage Limited.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- ¹¹ China Goldjoy Credit Limited has a security interest in these 111,500,000 Shares, China Goldjoy Credit Limited is wholly-owned by Stellar Result Limited, which in turn is wholly-owned by Goldjoy Holding Limited. By virtue of the SFO, each of Stellar Result Limited and Goldjoy Holding Limited is deemed to be interested in the Shares held by China Goldjoy Credit Limited.
- ¹² Goldjoy Holding Limited is owned as to 80% by Great Sphere Developments Limited and by virtue of the SFO, Great Sphere Developments Limited is deemed to be interested in the 111,500,000 Shares held by China Goldjoy Credit Limited. In addition, by virtue of the SFO, Great Sphere Developments Limited is also deemed to be interested in 72,802,000 Shares through certain wholly-owned subsidiaries. Therefore, Great Sphere Developments Limited is deemed to be interested in a total of 184,302,000 Shares.
- ¹³ Great Sphere Developments Limited is wholly-owned by China Goldjoy Group Limited, a company listed on HKEx, which in turn is owned as to approximately 48.86% by Tinmark Development Limited. Tinmark Development Limited is in turn wholly-owned by YAO Jianhui (姚建輝). By virtue of the SFO, each of China Goldjoy Group Limited, Tinmark Development Limited and YAO Jianhui (姚建輝) is deemed to be interested in the Shares in which Great Sphere Developments Limited is deemed to be interested.
- ¹⁴ Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) is owned as to 99.83% by WEI Lidong (尉立東) and Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) holds a total of 129,000,000 Shares through certain subsidiaries.
- ¹⁵ Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) (“**Hong Kong Xingrui**”) is wholly-owned by Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) (“**Xingrui Industrial**”), being a state-owned company under the Zhengzhou Airport Zone Economic Intergrated Experimental Zone (Zhengzhou Xinzheng Integrated Free Trade Zone) Management Committee (鄭州航空港經濟綜合實驗區(鄭州新鄭綜合保稅區)管理委員會), which was formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Management Committee (鄭州新鄭綜合保稅區(鄭州航空港區)管理委員會)). Xingrui Industrial is owned as to 51% and 49% by Zhengzhou Airport Zone Xinggang Investment Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as: Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司) (“**Zhengzhou Xinggang**”), and Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司) (“**Ruimaotong**”), respectively. Ruimaotong is wholly-owned by Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司) (“**Jiangsu Jinhe**”), being a company listed on the Shanghai Stock Exchange, which is in turn wholly-owned by Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司) (“**Ruimaotong Supply Chain Management**”). Ruimaotong Supply Chain Management is owned as to 60.76% by Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司) (“**Zhengzhou Ruimaotong**”). Zhengzhou Ruimaotong is wholly-owned by Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司)) (“**Zhengzhou Zhongrui**”), which is owned as to 70% by WAN Yongxing (萬永興). By virtue of the SFO, Xingrui Industrial, Zhengzhou Xinggang, Ruimaotong, Jiangsu Jinhe, Ruimaotong Supply Chain Management, Zhengzhou Ruimaotong, Zhengzhou Zhongrui and WAN Yongxing (萬永興) are deemed to be interested in the Shares held by Hong Kong Xingrui.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- ¹⁶ Zhengzhou Zhengdong New District Construction and Development Investment Corporation (鄭州市鄭東新區建設開發投資總公司) is established by the Zhengzhou Zhengdong New District Management Committee (鄭州鄭東新區管理委員會).
- ¹⁷ Henan Hongbao Group Company Limited (河南鴻寶集團有限公司) is owned by YUAN Guibao (袁桂寶) as to 39%. By virtue of the SFO, YUAN Guibao (袁桂寶) is deemed to be interested in the Shares held by Henan Hongbao Group Company Limited (河南鴻寶集團有限公司).

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

3 HOLDERS WITH 5% OR MORE SHAREHOLDING IN THE BANK

As at the end of the Reporting Period, Zhengzhou Finance Bureau (鄭州市財政局) directly held 490,904,755 Domestic Shares, accounting for 9.22% of the total issued Shares. China Goldjoy Securities Limited (as custodian) held 289,178,000 H Shares, accounting for 5.43% of the total issued Shares.

4 PLEDGE AND FREEZING OF SHARES OF THE BANK

As at the end of the Reporting Period, to the knowledge of the Bank, 1,514,770,969 Shares were subject to pledge (accounting for 28.46% of the total issued Shares), of which 42,098,217 Shares were subject to freezing. And no Shares were subject to judicial auction during the Reporting Period.

5 PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

During the six months ended June 30, 2017, there was no purchase, sale or redemption of any listed securities of the Bank by the Bank or any of its subsidiaries.

CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

6 INITIAL PUBLIC OFFERING OF A SHARES

The 2016 first extraordinary general meeting of the Bank was convened on September 27, 2016, at which the resolution in relation to the initial public offering of A Shares was considered and approved. The Bank proposed to issue no more than 600,000,000 A Shares, representing 15.77% and 11.27% of the Domestic Shares in issue and the total number of issued Shares respectively, as at the end of the Reporting Period. The actual total offering size will be determined through negotiations between the Board with the sponsor (lead underwriter) after being authorized by the shareholders' general meeting based on capital requirements of the Bank, the Bank's communications with the regulatory authorities and the prevailing market conditions at the time of the offering. For details in relation to, among others, the A Share Offering, please refer to the circular of the Bank dated August 13, 2016 and the announcements of the Bank dated July 16, 2016, August 13, 2016, September 27, 2016, December 23, 2016 and December 29, 2016, respectively.

The Bank has submitted application materials in respect of the A Share Offering, including the A Share prospectus, to the CSRC, and the CSRC has accepted the application on December 22, 2016. The A Share prospectus has been published on the website of the CSRC at www.csrc.gov.cn and pursuant to Rule 13.10B of the Listing Rules, the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.zzbank.cn on the same day. At the 2016 AGM, a resolution in relation to the plan for further extending the validity period of the A Share Offering was considered and approved. For details, please refer to the circular of the Bank dated April 26, 2017 and the announcements of the Bank dated March 27, 2017 and May 19, 2017, respectively. The Bank will disclose further details and developments in respect of the A Share Offering as and when appropriate.

7 NON-PUBLIC ISSUANCE OF OFFSHORE PREFERENCE SHARES

In order to further improve the comprehensive competitiveness of the Bank and enhance the capability of sustainable development, a special resolution in relation to the non-public Issuance of Offshore Preference Shares was considered and approved at the 2016 AGM, the first 2017 Domestic Shareholders' class meeting and the first 2017 H shareholders' class meeting convened by the Bank. The bank proposed to conduct the non-public issuance of a maximum of 80,000,000 Offshore Preference Shares to replenish the Bank's additional tier-one capital. For details, please refer to the circular of the Bank dated April 26, 2017 and the announcements of the Bank dated March 27, 2017 and May 19, 2017, respectively.

The Bank is currently in the process of carrying forward matters relating to the non-public issuance of the Offshore Preference Shares, and will disclose further details and developments as and when appropriate.

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AS OF JUNE 30, 2017

Directors

Name	Gender	Date of birth	Position in the Bank	Term of Office
WANG Tianyu (王天宇)	M	March 1966	Chairman, executive Director	2015.6.18-2018.6.18
SHEN Xueqing (申學清)	M	July 1965	President, executive Director	2015.6.18-2018.6.18
FENG Tao(馮濤)	M	September 1963	Vice chairman, executive Director	2016.8.4-2018.6.18
FAN Yutao (樊玉濤)	M	May 1966	Non-executive Director	2015.9.8-2018.6.18
ZHANG Jingguo (張敬國)	M	July 1963	Non-executive Director	2015.6.18-2018.6.18
JI Hongjun (姬宏俊)	M	June 1963	Non-executive Director	2015.6.18-2018.6.18
LIANG Songwei (梁嵩巍)	M	August 1968	Non-executive Director	2015.6.18-2018.6.18
MA Jinwei (馬金偉)	M	January 1976	Non-executive Director	2015.9.8-2018.6.18
YU Zhanglin (于章林)	M	December 1966	Non-executive Director	2016.8.4-2018.6.18
WANG Shihao (王世豪)	M	April 1950	Independent non-executive Director	2015.6.18-2018.6.18
LI Huaizhen (李懷珍)	M	June 1957	Independent non-executive Director	2015.9.8-2018.6.18
XIE Taifeng (謝太峰)	M	August 1958	Independent non-executive Director	2015.9.8-2018.6.18
WU Ge (吳革)	M	May 1967	Independent non-executive Director	2015.9.8-2018.6.18
CHAN Mei Bo Mabel (陳美寶)	F	November 1971	Independent non-executive Director	2015.9.8-2018.6.18

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Supervisors

Name	Gender	Date of birth	Position in the Bank	Term of Office
ZHAO Lijuan (趙麗娟)	F	September 1962	Chairman of the Board of Supervisors and Shareholder Supervisor	2016.6.17-2018.6.18
MENG Jun (孟君)	F	November 1971	Shareholder Supervisor	2015.6.18-2018.6.18
ZHU Zhihui (朱志輝)	M	August 1969	Shareholder Supervisor	2015.6.18-2018.6.18
TANG Yunwei (湯雲為)	M	November 1944	External Supervisor	2015.6.18-2018.6.18
XU Changsheng (徐長生)	M	October 1963	External Supervisor	2016.6.17-2018.6.18
SONG Ke (宋科) ⁽¹⁾	M	April 1982	External Supervisor	2017.5.19-2018.6.18
DUAN Ping (段萍)	F	April 1966	Employee Supervisor	2015.6.18-2018.6.18
ZHANG Chungu (張春閣)	F	December 1968	Employee Supervisor	2015.6.18-2018.6.18
CUI Huarui (崔華瑞)	F	May 1967	Employee Supervisor	2015.6.18-2018.6.18

⁽¹⁾ Mr. SONG Ke (宋科) was elected as an external Supervisor in the 2016 AGM. His term of office commenced from May 19, 2017 until the expiry of the term of the fifth session of the Board of Supervisors.

Senior Management

Name	Gender	Date of Birth	Position in the Bank
SHEN Xueqing (申學清)	M	July 1965	President
XIA Hua (夏華)	M	August 1967	Vice president
BAI Xiaofeng (白效鋒)	M	August 1967	Vice president
GUO Zhibin (郭志彬)	M	October 1968	Vice president
SUN Haigang (孫海剛)	M	August 1977	Assistant to president
ZHANG Wenjian (張文建)	M	June 1965	Assistant to president
MAO Yuezhen (毛月珍)	F	April 1963	Chief accountant
FU Chunqiao (傅春喬)	M	October 1973	Secretary of the Board of Directors
JIANG Tao (姜濤)	M	April 1972	Chief information officer

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

2 CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2.1 Changes of Directors during the Reporting Period

Ms. XU Jingnan (徐靜楠) was approved by the Board to be proposed to be appointed as a non-executive Director and the proposal was submitted to the 2016 AGM for approval. For details of the proposed appointment of Ms. XU Jingnan (徐靜楠), please refer to the announcement of the proposed appointment of non-executive Director published on March 27, 2017.

Upon election by the 2016 AGM, Ms. XU Jingnan (徐靜楠) was elected as a non-executive Director, but her qualification of directorship is still subject to the review and approval by the CBRC Henan Bureau.

2.2 Changes of Supervisors during the Reporting Period

Mr. SONG Ke (宋科) was approved by the Board of Supervisors to be proposed to be appointed as an external Supervisor and the proposal was submitted to the 2016 AGM for approval. For details of the proposed appointment of Mr. SONG Ke (宋科), please refer to the announcement of the proposed appointment of Supervisor published on April 18, 2017. Upon election by the 2016 AGM, Mr. SONG Ke (宋科) was elected as an external Supervisor of the Bank.

Mr. LIU Yuhui's (劉煜輝) term of office as an external Supervisor expired on June 24, 2017 and he ceased to be an external Supervisor on June 25, 2017. For details of the expiration of Mr. LIU Yuhui's (劉煜輝) term of office as an external Supervisor, please refer to the announcement of the change of Supervisor published on June 26, 2017.

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

3 SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted a code of conduct on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct governing securities transactions conducted by its Directors, Supervisors and relevant employees. After having made inquiries to all Directors, Supervisors, the Bank confirmed that they had complied with the above code during the Reporting Period. The Bank was not aware that any relevant employee had breached the code.

4 INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As of June 30, 2017, the interests of Directors, Supervisors and President of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were set out as follows:

Name	Position	Class of Shares	Nature	Number of Shares held directly or indirectly (Shares) (Long position)	Percentage of the relevant class of Shares in issue (%)	Percentage of all Shares in issue (%)
WANG Tianyu (王天宇)	Director	Domestic Shares	Beneficial owner	25,003	0.0007	0.0005
ZHU Zhihui (朱志暉)	Supervisor	Domestic Shares	Interest of controlled corporation	199,046,474	5.23	3.74
DUAN Ping (段萍)	Supervisor	Domestic Shares	Beneficial owner	4,000	0.0001	0.00008
ZHANG Chungu (張春閣)	Supervisor	Domestic Shares	Beneficial owner	14,056	0.0004	0.0003

Save as disclosed above, none of the Directors, chief executive or Supervisors of the Bank held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at June 30, 2017.

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

5 STAFF

5.1 Composition

By department/function

	Number of employees	Percentage
Finance and accounting	1,120	29%
Corporate and retail	231	6%
Risk management, internal audit and compliance	232	6%
Retail banking	529	14%
Corporate banking	472	12%
I.T.	99	3%
Business management and support	1,149	29%
Treasury business	66	1%
Total	3,898	100%

By age

	Number of employees	Percentage
30 or below	2,115	54%
31- 40	939	24%
41- 50	744	19%
Over 50	100	3%
Total	3,898	100%

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

By education

	Number of employees	Percentage
Master or above	480	13%
Bachelor	2,822	72%
Non-degree tertiary	505	13%
Others	91	2%
Total	3,898	100%

5.2 Staff Training Plan

The Bank formulated the annual training plan based on the development strategies and the educational training objectives, and launched various training sessions to guarantee the training quality, and enhance the professionalism of employees and provide support to their career development. During the Reporting Period, the Bank consolidated the training resources at headquarter, branches and sub-branches as well as launched intensive training projects for new businesses, new systems and new products, and also provided trainings to improve senior-/mid-level management's capability, specialist trainings, junior staff trainings and new staff trainings. The Bank earnestly grasped the work for constructing the mobile training platform and building up the internal instructor team with a total of 72 intensive training sessions for a total of 7,628 employee participants for various business lines in the first half of 2017.

5.3 Remuneration Policy for Staff

The Bank has established a performance-based remuneration system and the salary of employees is based on their positions and performance appraisal. The Bank provides employees with the social insurance contribution, housing provident fund and other employee benefit packages in accordance with the applicable laws, rules and regulations of the PRC.

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

6 BASIC INFORMATION OF INSTITUTIONS UNDER THE BANK

The following table sets out the branches and sub-branches of the Bank as of June 30, 2017:

Region	Name of branch	Business address (the PRC)	Notes
Zhengzhou, Henan	Headquarter	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province	In charge of 115 branch institutions in Zhengzhou district and 32 institutions in provincial prefectures and cities for conducting external business
Nanyang, Henan	Nanyang	The junction of Zhongjing Road and Fanli Road, Wancheng District, Nanyang City, Henan Province	In charge of eight institutions for conducting external business
Xinxiang, Henan	Xinxiang	No. 278, Xiangyang Road, Xinxiang City, Henan Province	In charge of seven institutions for conducting external business
Luoyang, Henan	Luoyang	Longan Building (隆安大廈), the junction of Guanlin Road and Houzaimen Street, Luolong District, Luoyang City, Henan Province	In charge of four institutions for conducting external business
Anyang, Henan	Anyang	Yiwu International Business & Trade Mansion, the junction of Zhonghua Road and Delong Street, Andong New District, Anyang City, Henan Province	In charge of four institutions for conducting external business
Shangqiu, Henan	Shangqiu	Floor A2B, Siji Harbour, Wenhua Road North and Zhongzhou Road East, Liangyuan District, Shangqiu City, Henan Province	In charge of three institutions for conducting external business
Xuchang, Henan	Xuchang	Hengtong Juncheng International Building (亨通君成國際大廈), southwest corner at the junction of Liancheng Avenue and Weiwen Road, Weidu District, Xuchang City, Henan Province	In charge of one institution for conducting external business

CHAPTER V DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Region	Name of branch	Business address (the PRC)	Notes
Luohe, Henan	Luohe	Floor 1-5, Changjian International (昌建國際), the junction of Songshan West Branch Road and Mudanjiang Road, Yancheng District, Luohe District, Henan Province	In charge of two institutions for conducting external business
Xinyang, Henan	Xinyang	Floor 1-2, Guolebai Gonggua (中樂百花公館), the junction of Xinqi Avenue and Xinba Street, Yangshan New District, Xinyang City, Henan Province	In charge of one institution for conducting external business
Puyang, Henan	Puyang	The northwest of junction of Renmin Road and Kaizhou Road, Longhua District, Puyang City, Henan Province	In charge of one institution for conducting external business
Pingdingshan, Henan	Pingdingshan	The southeast of junction of Kaiyuan Road and Qinggong Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one institution for conducting external business
Zhengzhou, Henan	Small Business Financial Service Centre	24/F, Bank of Zhengzhou Building, 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province	

CHAPTER VI CORPORATE GOVERNANCE

1 OVERVIEW OF CORPORATE GOVERNANCE

In the first half of 2017, the Bank strictly complied with relevant listing regulatory requirements in Hong Kong, and strived to improve the Bank's corporate governance mechanism, as well as to enhance and improve the Bank's corporate governance. The Bank observed the "Corporate Governance Code" in Appendix 14 to the Listing Rules, and met the relevant requirements of the PRC commercial bank administrative measures and corporate governance and established a sound corporate governance system, in which the duties of the general meeting, the Board of Directors, the Board of Supervisors and senior management are clearly defined and operated separately, and with effective check and balance in place to ensure efficient coordination and scientific decision making, thereby fully protecting the interests of Shareholders and enhancing corporate value. During the Reporting Period, the Bank complied with the code provisions of the "Corporate Governance Code" in Appendix 14 to the Listing Rules as well as the laws and regulations in respect of inside information disclosure and the Listing Rules. The Directors are not aware of any information indicating that the Bank did not comply with the code provisions set out in the "Corporate Governance Code" during the Reporting Period.

During the Reporting Period, each of the Bank's general meeting, the Board of Directors, the Board of Supervisors and the committees under the Board of Directors and the Board of Supervisors performed their duties, and engaged in proactive operations so as to protect the sound operation of the Bank's compliance and sustained healthy development. During the Reporting Period, the Bank held 20 meetings. Among them, there were one annual general meeting of Shareholders, one Domestic Shareholders' class meeting, one H Shareholders' class meeting; five meetings of the Board of Directors, seven meetings of the special committees of the Board; three meetings of the Board of Supervisors and two meetings for the special committees of the Board of Supervisors.

CHAPTER VI CORPORATE GOVERNANCE (Continued)

2 CONVENING OF GENERAL MEETING

During the first half of 2017, the Bank held one annual general meeting, one Domestic Shareholders' class meeting and one H Shareholders' class meeting, with details as follow:

On May 19, 2017, the Bank held the 2016 AGM in Zhengzhou, Henan Province. In the meeting, 22 resolutions regarding, among other things, the 2016 Board of Directors' report, 2016 Board of Supervisors' report, 2017 financial budget, profit distribution plan, amendments to the Articles of Association, non-public issuance of Offshore Preference Shares and the appointment of Directors and Supervisors were considered and approved.

On May 19, 2017, the Bank held the first 2017 Domestic Shareholders' class meeting in Zhengzhou, Henan Province. In the meeting, two resolutions regarding the non-public issuance of Offshore Preference Shares were considered and approved.

On May 19, 2017, the Bank held the first 2017 H shareholders' class meeting in Zhengzhou, Henan Province. In the meeting, two resolutions regarding the non-public issuance of Offshore Preference Shares were considered and approved.

The convening of the above general meeting, the notices, the holding and voting procedures were in line with the relevant provisions of the relevant laws and regulations and the Articles of Association.

3 MEETINGS HELD BY THE BOARD OF DIRECTORS AND ITS SPECIAL COMMITTEES

During the Reporting Period, the Bank held five meetings of the Board of Directors, at which 47 resolutions were considered and approved. The special committees of the Board of Directors held seven meetings, at which 15 resolutions were considered and approved. The strategic development committee held one meeting and considered and approved four resolutions; the risk management committee held one meeting and considered and approved three resolutions; the related party transactions control committee held one meeting and considered and approved two resolutions; the audit committee held one meeting and considered and approved six resolutions; the nomination committee held one meeting and considered and approved two resolutions; the remuneration and assessment committee held one meeting and considered and approved one resolution.

4 MEETINGS HELD BY THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the Reporting Period, the Bank held three meetings of the Board of Supervisors, at which 10 resolutions were considered and approved. The nomination committee of the Board of Supervisors held two meetings and considered and approved six resolutions.

5 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, in relation to the non-public issuance of the Offshore Preference Shares, pursuant to the Guidance Opinions of the State Council on the Launch of Preference Shares Pilot Scheme, the Trial Administrative Measures on Preference Shares, the Guidance Opinions on Issuance of Preference Shares by Commercial Banks for Replenishing Tier-one Capital jointly issued by the CBRC and CSRC, the Guidance Opinions of the CBRC on Capital Instruments Innovation of Commercial Banks, Guidelines on the Corporate Governance of Commercial Banks and other relevant laws, regulations and regulatory documents and taking into account the plan of the non-public issuance of the Offshore Preference Shares and the situation of the Bank, the Bank proposed to make certain amendments to the Articles of Association. The proposal regarding the amendments to the Articles of Association was considered and approved at the 2016 AGM and has obtained the approval from the CBRC Henan Bureau on June 19, 2017. The amendments to the Articles of Association will take effect upon the completion of initial non-public issuance of the Offshore Preference Shares, provided that the initial non-public issuance of the Offshore Preference Shares takes place before the A Share Offering.

As at the Latest Practicable Date, the first tranche of the Offshore Preference Shares had not been issued.

CHAPTER VI CORPORATE GOVERNANCE (Continued)

6 INTERNAL CONTROL AND INTERNAL AUDIT

6.1 INTERNAL CONTROL

According to laws and regulations including the Company Law of the PRC, Commercial Bank Law of the PRC, Basic Norms of Corporate Internal Control and its supplementary guidelines as well as relevant requirements of the Hong Kong Stock Exchange, on the basis of strictly complying with internal control principles including “comprehensiveness, balance, prudence and suitability”, the Bank established a characteristic internal control system in terms of internal control environment, risk identification and control, control measures, supervision and rectification measures for its principle business.

Based on its scale and stage of development, by improving the organizational structure and the reconstruction of business procedures and implementing operational system authorized by the single legal person, the Bank has established and improved its modern corporate governance structure of “three Boards and one Management” and a reasonable, balanced, lean and efficient system for organizational structure. The Board of Directors is responsible for ensuring the establishment and implementation of an effective internal control system; the Board of Supervisors is responsible for monitoring the Board of Directors and the senior management to improve internal control system and perform internal control duties; the senior management is responsible for implementing the decisions made by the Board of Directors, establishing and improving internal structure to ensure effective performance of internal control and conducting supervision and evaluation on the appropriateness and effectiveness of the internal control system.

In order to strengthen and improve internal control management, the Bank has formulated and published the Management Measures for Internal Control of Bank of Zhengzhou, designed for internal control system and developed “three lines of control”. The first one is to promptly control, restrict and supervise the department and positions of the business operation level; the second one is to design, manage, supervise and check business procedures by management departments; the third one is to supervise, evaluate on and urge for revision for business operation and management by the internal audit office.

During the Reporting Period, the Bank revised and improved 40 internal control systems. Apart from the daily compliance supervision and internal audit, the Bank also organized risk inspection of cases, inspection in employee behavior, examination of seal management, flight examination of branch institutions, examination of data quality and other special examinations. It continued to push forward the development of risk management system and ensure effective operation of internal control system. In addition, the Bank conducted internal control and self-evaluation on risk management for 2016. As reviewed and approved by the Board of Directors, no significant deficiencies were found in the design or implementation of the internal control and risk management system.

6.2 INTERNAL AUDIT

In accordance with the requirements of the Internal Audit Guidelines for Commercial Banks and the Internal Control Guidelines for Commercial Banks, the Bank established an independent and vertical internal audit management system. As an executive body of the internal audit of the Bank, the internal audit office reports to the Board of Directors and the audit committee and is responsible for establishing internal audit procedures and implementing annual audit plans. In accordance with regulatory requirements and relevant system requirements, the internal audit office conscientiously performs its duties, regularly reports to the Board of Directors and the Board of Supervisors on the progress of the audit work, and timely submits audit reports and informs senior management.

Adhering to the principle of risk-orientation, objectivity and fairness, the internal audit department of the Bank established overall planning of internal audit of the Bank, made arrangements for and implemented the examination, supervision and evaluation of various business activities, risk profile, internal control and financial obligations of key staff members of the Bank during their tenure of service; ensured the implementation of the relevant laws, regulations and rules of the PRC, and suggested improvements to the management.

During the Reporting Period, the internal audit office set up audit centres at the branches and sub-branches at county level, expanded audit coverage, optimised risk audit strategy, established information communication platform, improved internal control evaluation system, carried out warning education activities, and effectively facilitated the improvement of internal control and management mechanism and system of the Bank.

CHAPTER VII SIGNIFICANT EVENTS

1 ISSUANCE AND REPURCHASE OF BONDS

The Bank issued financial bonds in 2013 with an aggregate principal of RMB5 billion, divided into two types, namely (1) three-year term with a fixed interest rate of 4.58%, which was due on May 20, 2016 and fully redeemed by the Bank; and (2) five-year term with a fixed interest rate of 4.80% and to be due on May 20, 2018.

The Bank issued 10-year tier II capital bonds in 2014, with an aggregate principal of RMB2 billion and interest rate per annum of 5.73%. Such bonds will be due on December 15, 2024.

The 2015 annual general meeting of the Bank convened on June 17, 2016 approved that, the Board can authorize the management to, after obtaining the approvals from the relevant regulatory authorities, issue green financial bonds with an aggregate amount not exceeding RMB5 billion. For details, please refer to the announcement of the Bank regarding the proposed authorization of the issuance of green financial bonds published on March 26, 2016, and the circular of the Bank regarding the 2015 annual general meeting of the Bank published on April 29, 2016. Such green financial bonds have been approved by the CBRC Henan Bureau and the PBoC on August 2, 2016 and June 6, 2017, respectively, and will be issued in the third quarter of 2017.

The 2014 annual general meeting of the Bank convened on June 18, 2015 approved that, the Board can authorize the management to, after obtaining the approvals from the relevant regulatory authorities, issue tier II capital bonds with a principal amount of up to RMB3 billion. Upon approval at the 2016 first extraordinary general meeting of the Bank convened on September 27, 2016, the issuing size of those bonds has been adjusted to not exceeding RMB5 billion. The issuance of such bonds has been approved by the CBRC and the PBoC on October 25, 2016 and December 2, 2016, respectively. The Bank issued the first tranche of the tier II capital bonds in an amount of RMB3 billion in the national interbank bond market on December 19, 2016, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.10%. The Bank issued the second tranche of the tier II capital bonds in an amount of RMB2 billion in the national interbank market on March 30, 2017, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.80%. For details, please refer to the announcements on completion of issuance of qualified tier II capital bonds published by the Bank on December 21, 2016 and March 30, 2017.

2 SIGNIFICANT LITIGATION AND ARBITRATION

During the Reporting Period, there was no litigation or arbitration which had a significant impact on the operating activities of the Bank.

3 SIGNIFICANT RELATED PARTY TRANSACTIONS

During the Reporting Period, there were no significant related party transactions which had an adverse impact on the operating results and financial position of the Bank.

4 PENALTY IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Bank and our Directors, Supervisors and senior management had not been subject to inspection, administrative penalty and criticism of the CSRC, public sanction of the Hong Kong Stock Exchange and penalty imposed by other regulatory bodies which had a significant impact on the operation of the Bank.

5 PERFORMANCE OF UNDERTAKINGS OF THE BANK AND SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE

During the Reporting Period, there were no undertakings given by the Bank or by Shareholders with shareholding of 5% or more of total issued Shares.

6 SIGNIFICANT CONTRACTS AND INFORMATION ON THEIR PERFORMANCE

During the Reporting Period, the Bank had no significant contracts and information on their performance.

7 AUDIT REVIEW

The financial statements for the six months ended June 30, 2017 prepared by the Bank according to the IFRS are unaudited but have been reviewed by KPMG, Certified Public Accountants, and the auditor's review report was unqualified. This interim report has been reviewed by the audit committee of the Board and the Board of Directors.

8 SHARE OPTION SCHEME AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD

During the Reporting Period, the Bank had not implemented any share option scheme.

9 APPOINTMENT AND DISMISSAL OF AUDITORS

Upon consideration and approval at the 2016 AGM, the Bank reappointed KPMG and KPMG Huazhen (Special General Partnership) as the Bank's international and domestic auditors for 2017, respectively, whose term of office will end after the Bank's annual general meeting for 2017.

CHAPTER VII SIGNIFICANT EVENTS (Continued)

10 SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS AND MERGERS OF BUSINESSES

In November 2016, the Bank entered into agreements with Zhengzhou Zhongxing Industry Co., Ltd. (鄭州中興實業集團有限公司), WANG Zhen (王珍), WANG Ge (王歌), WEI Hong (魏紅), CHEN Yahui (陳亞輝), LI Rongli (李榮麗), WANG Luping (王魯平) and ZHANG Yuling (張玉玲), respectively and intended to acquire 31.5% shares of Xinmi County Bank, representing 31.5 million shares in total, held by them at the price of RMB1.1 per share. This share transfer was completed in January 2017, and Xinmi County Bank has since then been held as to 51.5% by the Bank.

Xinmi County Bank was established on January 28, 2011, with a registered capital of RMB100 million. The Bank as a sponsor contributed RMB20 million and held 20% shares of Xinmi County Bank. Pursuant to the 2015 annual audit report of Xinmi County Bank, as of December 31, 2015, the net asset per share of Xinmi County Bank was RMB1.23.

11 PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

2016 Profit Distribution

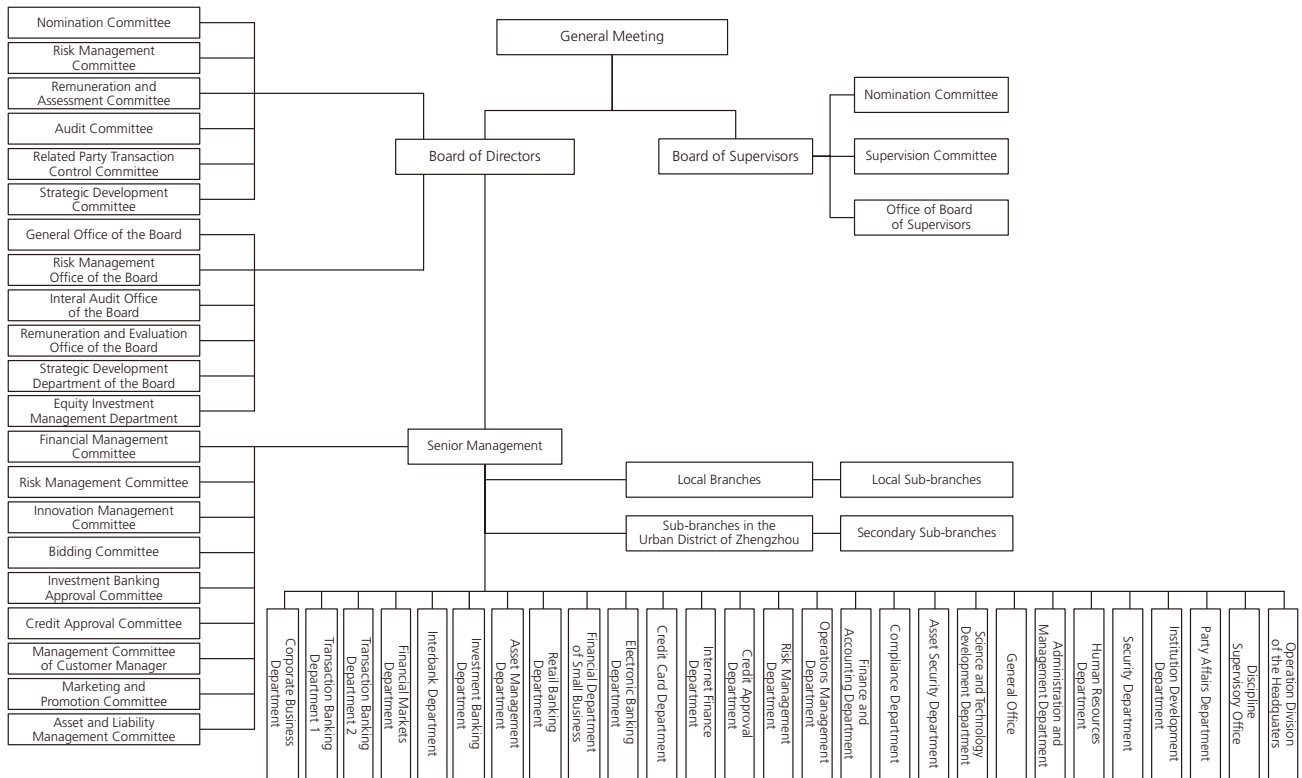
At the 2016 AGM, the Bank considered and approved the 2016 profit distribution plan. Cash dividends of RMB1,171 million (tax inclusive) or RMB2.20 per 10 Shares (tax inclusive) was declared to all Shareholders. Dividends of the Bank for 2016 were paid on June 15, 2017.

2017 Interim Profit Distribution

Pursuant to the Bank's dividend distribution policy, and based on the Bank's detailed results of operation in the first half of 2017, the Board does not propose distribution of an interim dividend for the six months ended June 30, 2017 (corresponding period in 2016: nil).

CHAPTER VIII ORGANIZATIONAL STRUCTURE

ORGANIZATIONAL STRUCTURE OF THE BANK



According to the business development needs of the Bank, and with reference to the recommendations of the external advisory institution, the Bank decided to rename the Trade Finance Department to Transaction Banking Department 1, set up a new department of Transaction Banking Department 2, upgrade the Investment Banking Centre under the Interbank Department to an Investment Banking Department and separately manage the Financial Service Centre for Small Business as a branch level operating institution, which were considered and approved at the Board meeting of the Bank on January 19, 2017 and took effect on the same day.

CHAPTER IX INTERIM FINANCIAL REPORT

Report on Review of Independent Auditor's Report

Review report to the board of directors of Bank of Zhengzhou 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 93 to 209 which comprises the consolidated statement of financial position of Bank of Zhengzhou 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.

CHAPTER IX INTERIM FINANCIAL REPORT (Continued)

Report on Review of Independent Auditor's Report

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.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

26 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
Interest income		8,536,680	7,139,045
Interest expense		(4,477,086)	(3,199,000)
Net interest income	4	4,059,594	3,940,045
Fee and commission income		932,107	611,308
Fee and commission expense		(22,797)	(18,993)
Net fee and commission income	5	909,310	592,315
Net trading losses	6	(163,299)	(61,138)
Net gains arising from investments	7	33,456	155,694
Other operating income	8	20,766	75,391
Operating income		4,859,827	4,702,307
Operating expenses	9	(1,133,806)	(1,104,449)
Impairment losses on assets	10	(737,106)	(839,047)
Operating profit		2,988,915	2,758,811
Share of profits of associates	21	18,810	21,158
Profit before taxation		3,007,725	2,779,969
Income tax expense	11	(682,726)	(648,871)
Profit for the period		2,324,999	2,131,098
Net profit attributable to:			
Equity shareholders of the Bank		2,271,396	2,121,760
Non-controlling interests		53,603	9,338
		2,324,999	2,131,098

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Note	2017	2016
Profit for the period		2,324,999	2,131,098
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets:			
net movement in the fair value reserve	33(d)	414	(22,394)
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	33(e)	(5,028)	1,360
Other comprehensive income net of tax		(4,614)	(21,034)
Total comprehensive income		2,320,385	2,110,064
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,266,782	2,100,726
Non-controlling interests		53,603	9,338
		2,320,385	2,110,064
Basic and diluted earnings per share (in RMB)	12	0.43	0.40

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2017	31 December 2016
Assets			
Cash and deposits with central bank	13	45,669,026	42,586,362
Deposits with banks and other financial institutions	14	4,327,238	1,414,928
Placements with banks and other financial institutions	15	15,351,516	11,758,215
Financial assets at fair value through profit or loss	16	9,981,782	8,946,097
Financial assets held under resale agreements	17	32,948,328	5,119,568
Loans and advances to customers	18	118,445,450	107,633,407
Financial investments:			
Available-for-sale financial assets	19	26,263,292	6,301,789
Held-to-maturity investments	19	55,250,098	49,671,048
Loans and receivables	19	92,329,884	118,224,916
Finance lease receivables	20	9,701,316	5,721,061
Interest in associates	21	248,371	255,195
Property and equipment	22	1,735,536	1,698,990
Deferred tax assets	23	1,009,800	969,658
Other assets	24	4,273,023	5,846,738
Total assets		417,534,660	366,147,972
Liabilities			
Due to central bank	25	1,091,550	77,000
Deposits from banks and other financial institutions	26	25,751,207	25,808,253
Placements from banks and other financial institutions	27	25,769,010	19,105,611
Financial assets sold under repurchase agreements	28	28,724,555	33,251,370
Deposits from customers	29	245,401,278	216,389,640
Tax payable		321,051	589,674
Debt securities issued	30	60,144,951	44,660,446
Other liabilities	31	7,257,963	4,404,603
Total liabilities		394,461,565	344,286,597

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2017	31 December 2016
Equity			
Share capital	32	5,321,932	5,321,932
Capital reserve	33	3,054,204	3,054,204
Surplus reserve	33	1,632,893	1,632,893
General reserve	33	4,529,565	4,527,789
Fair value reserve	33	3,255	2,841
Remeasurement of net defined benefit liability	33	(57,287)	(52,259)
Retained earnings	34	7,907,773	6,808,978
Total equity attributable to equity shareholders of the Bank		22,392,335	21,296,378
Non-controlling interests		680,760	564,997
Total equity		23,073,095	21,861,375
Total liabilities and equity		417,534,660	366,147,972

Approved and authorised for issue by the board of directors on August 26, 2017.

Wang Tianyu

*Chairman of the Board of Directors
Executive Director*

Shen Xueqing

*President
Executive Director*

Mao Yuezhen

Chief accountant

Li Guoquan

*General Manager of the Planning and
Finance Department* (Company chop)

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2016		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,285	17,794,840	29,179	17,824,019
Profit for the period		-	-	-	-	-	-	2,121,760	2,121,760	9,338	2,131,098
Other comprehensive income	33(d)(e)	-	-	-	-	(22,394)	1,360	-	(21,034)	-	(21,034)
Total comprehensive income		-	-	-	-	(22,394)	1,360	2,121,760	2,100,726	9,338	2,110,064
Changes in share capital											
- Over-allotment H Shares	32	180,000	392,422	-	-	-	-	-	572,422	-	572,422
- Non-controlling interests from the establishment of subsidiary	21(a)	-	-	-	-	-	-	-	-	490,000	490,000
- Others		-	(729)	-	-	-	-	-	(729)	-	(729)
Sub-total		180,000	391,693	-	-	-	-	-	571,693	490,000	1,061,693
Appropriation of profit:											
- Cash dividends	34	-	-	-	-	-	-	(1,064,386)	(1,064,386)	-	(1,064,386)
Balance at 30 June 2016		5,321,932	3,054,257	1,237,793	3,163,200	(11,989)	(53,979)	6,691,659	19,402,873	528,517	19,931,390

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 July 2016		5,321,932	3,054,257	1,237,793	3,163,200	(11,989)	(53,979)	6,691,659	19,402,873	528,517	19,931,390
Profit for the period		-	-	-	-	-	-	1,877,008	1,877,008	36,480	1,913,488
Other comprehensive income	33(d)(e)	-	-	-	-	14,830	1,720	-	16,550	-	16,550
Total comprehensive income		-	-	-	-	14,830	1,720	1,877,008	1,893,558	36,480	1,930,038
Appropriation of profit:											
- Appropriation to surplus reserve	33(b)	-	-	395,100	-	-	-	(395,100)	-	-	-
- Appropriation to general reserve	33(c)	-	-	-	1,364,589	-	-	(1,364,589)	-	-	-
Sub-total		-	-	395,100	1,364,589	-	-	(1,759,689)	-	-	-
Others		-	(53)	-	-	-	-	-	(53)	-	(53)
Balance at 31 December 2016		5,321,932	3,054,204	1,632,893	4,527,789	2,841	(52,259)	6,808,978	21,296,378	564,997	21,861,375

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank									Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	
Balance at 1 January 2017		5,321,932	3,054,204	1,632,893	4,527,789	2,841	(52,259)	6,808,978	21,296,378	564,997	21,861,375
Profit for the period		-	-	-	-	-	-	2,271,396	2,271,396	53,603	2,324,999
Other comprehensive income	33(d)(e)	-	-	-	-	414	(5,028)	-	(4,614)	-	(4,614)
Total comprehensive income		-	-	-	-	414	(5,028)	2,271,396	2,266,782	53,603	2,320,385
Appropriation of profit:											
– Appropriation to general reserve	33(c)	-	-	-	1,776	-	-	(1,776)	-	-	-
– Cash dividends	34	-	-	-	-	-	-	(1,170,825)	(1,170,825)	-	(1,170,825)
Sub-total		-	-	-	1,776	-	-	(1,172,601)	(1,170,825)	-	(1,170,825)
Change in share capital											
– Non-controlling interests from the acquisition of subsidiary	21(a)	-	-	-	-	-	-	-	-	62,160	62,160
Balance at 30 June 2017		5,321,932	3,054,204	1,632,893	4,529,565	3,255	(57,287)	7,907,773	22,392,335	680,760	23,073,095

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
Cash flows from operating activities		
Profit before tax	3,007,725	2,779,969
<i>Adjustments for:</i>		
Impairment losses on assets	737,106	839,047
Depreciation and amortisation	122,082	101,815
Unwinding of discount	(25,994)	(26,457)
Unrealised foreign exchange losses/(gains)	66,109	(86,491)
Net trading losses of financial assets at fair value through profit or loss	7,697	69,547
Net gains arising from investments	(33,456)	(155,694)
Share of profits of associates	(18,810)	(21,158)
Interest expense on debt securities issued	1,083,155	633,558
Interest income on financial investments	(4,269,735)	(3,333,037)
	675,879	801,099
<i>Changes in operating assets</i>		
Net increase in deposits with central bank	(1,238,656)	(538,256)
Net increase in deposits and placements with banks and other financial institutions	(3,725,299)	(3,430,651)
Net (increase)/decrease in financial assets at fair value through profit or loss	(1,043,382)	3,933,209
Net increase in loans and advances to customers	(10,851,125)	(10,786,444)
Net increase in financial assets held under resale agreements	(27,828,760)	(2,405,968)
Net increase in finance lease receivables	(4,216,563)	(1,376,426)
Net decrease in other operating assets	1,760,620	51,611
	(47,143,165)	(14,552,925)

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
<i>Changes in operating liabilities</i>		
Net increase in amounts due to central bank	1,014,550	30,000
Net increase in deposits and placements from banks and other financial institutions	6,603,886	12,340,575
Net decrease in financial assets sold under repurchase agreements	(4,526,815)	(224,038)
Net increase in deposits from customers	28,476,710	25,866,589
Income tax paid	(1,141,709)	(647,796)
Net increase in other operating liabilities	2,905,097	928,147
	33,331,719	38,293,477
Net cash flows (used in)/generated from operating activities	(13,135,567)	24,541,651
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	133,768,786	82,417,287
Proceeds from disposal of property and equipment and other assets	–	8,447
Payments on acquisition of investments	(133,065,092)	(119,109,368)
Dividends and interest received	3,910,886	3,110,945
Net proceeds from acquisition of subsidiary	68,436	–
Payments on acquisition of property and equipment and other assets	(202,334)	(633,386)
Net cash flows generated from/(used in) investing activities	4,480,682	(34,206,075)
Cash flows from financing activities		
Proceeds received from issuance of H-shares	–	572,422
Capital contribution by non-controlling interests	–	490,000
Proceeds received from debt securities issued	43,521,363	31,913,680
Repayment of debt securities issued	(28,334,144)	(23,482,117)
Interest paid on debt securities issued	(701,445)	(262,603)
Dividends paid	(1,165,469)	(39)

The notes on pages 103 to 209 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
Net cash flows generated from financing activities		13,320,305	9,231,343
Net increase/(decrease) in cash and cash equivalents		4,665,420	(433,081)
Cash and cash equivalents as at 1 January		16,122,799	14,514,260
Effect of foreign exchange rate changes on cash and cash equivalents		(41,100)	40,929
Cash and cash equivalents as at 30 June	35	20,747,119	14,122,108
Net cash flows generated from operating activities include:			
Interest received		4,149,384	3,832,324
Interest paid		(3,140,185)	(2,378,670)

The notes on pages 103 to 209 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Zhengzhou Co., Ltd., formerly known as City Commercial Bank of Zhengzhou Co., Ltd., is a joint-stock commercial bank established with the approval of the People's Bank of China (the "PBOC") in accordance with the notice of JiyinFu [2000] No. 64. The Bank changed its name to Bank of Zhengzhou Co., Ltd. in October 2009. The registered address is No.22 Business Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province. The Bank operates in Henan Province of the PRC.

The Bank obtained its financial institution license No. B1036H241010001 from the China Banking Regulatory Commission (the "CBRC"), and obtained its business license No. 410000100052554 from the State Administration for Industry and Commerce of the People's Republic of China (the "PRC"). The Bank is regulated by the CBRC authorized by the State Council.

In December 2015, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 06196).

The principal activities of the Bank and its subsidiaries (collectively the "Group") includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting bills; issuing financial bonds; acting as the issuing agent, cashing agent and the underwriting of government bonds; trading government bonds; engaging in interbank borrowings; financial leasing; offering guarantees; providing safe-deposit box service; collecting and making payments as agent and acting as insurance agent; accepting entrusted loans and other businesses approved by the banking regulatory authorities under the State Council.

For subsidiaries of the Bank, refer to note 21 for more information.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, 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 (“IASB”).

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 accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed 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 condensed consolidated interim financial statements and notes thereon do not include all 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.

3 CHANGES IN ACCOUNTING POLICIES

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET INTEREST INCOME

	Six months ended 30 June	
	2017	2016
Interest income arising from		
Deposits with central bank	231,905	199,669
Deposits and placements with banks and other financial institutions	174,307	139,977
Loans and advances to customers	2,416,946	2,302,127
– Personal loans and advances	749,395	717,782
– Discounted bills	4,833	100,866
Financial assets held under resale agreements	187,653	101,958
Financial investments	4,514,378	3,562,872
Financial lease receivables	257,263	13,794
Sub-total	8,536,680	7,139,045
Interest expense arising from		
Amounts due to central bank	(11,579)	(64)
Deposits and placements from banks and other financial institutions	(978,092)	(642,683)
Deposits from customers	(2,058,860)	(1,695,708)
Financial assets sold under repurchase agreements	(345,400)	(226,987)
Debt securities issued	(1,083,155)	(633,558)
Sub-total	(4,477,086)	(3,199,000)
Net interest income	4,059,594	3,940,045
Of which:		
Interest income arising from impaired financial assets identified	25,994	26,457

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET INTEREST INCOME (Continued)

(b) Total interest income arising from financial assets that are not at fair value through profit or loss for the period ended 30 June 2017 amounted to RMB8,292 million (Six months ended 30 June 2016: RMB6,909 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period ended 30 June 2017 amounted to RMB4,477 million (Six months ended 30 June 2016: RMB3,199 million).

5 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
Fee and commission income		
Agency and custody services fees	568,787	368,258
Underwriting and advisory fees	260,436	138,812
Acceptance and guarantee services fees	61,004	77,884
Bank card services fees	36,461	20,606
Others	5,419	5,748
Sub-total	932,107	611,308
Fee and commission expense	(22,797)	(18,993)
Net fee and commission income	909,310	592,315

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET TRADING LOSSES

	Note	Six months ended 30 June	
		2017	2016
Net losses from debt securities	(a)	(108,616)	(109,666)
Net foreign exchange (losses)/gains	(b)	(54,683)	48,528
Total		(163,299)	(61,138)

(a) Net losses from debt securities include losses arising from the buying and selling of, and changes in the fair value of financial assets held for trading.

(b) Net foreign exchange (losses)/gains mainly included (losses)/gains from purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

7 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2017	2016
Net gains from financial investments	33,456	155,694
Total	33,456	155,694

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
Rental income	8,284	5,763
Government grants	2,715	67,777
Others	9,767	1,851
Total	20,766	75,391

9 OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
Staff costs		
– Salaries, bonuses and allowance	448,878	359,913
– Social insurance and annuity	89,795	71,085
– Supplementary retirement benefits	461	3,387
– Staff welfare	45,177	40,241
– Housing allowance	26,696	21,005
– Others	13,056	9,123
Sub-total	624,063	504,754
Depreciation and amortisation	122,082	101,815
Rental and property management expenses	84,964	69,656
Office expenses	32,359	29,792
Tax and surcharges	35,255	175,198
Other general and administrative expenses	235,083	223,234
Total	1,133,806	1,104,449

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

10 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2017	2016
Loans and advances to customers	640,145	728,032
Financial investments classified as loans and receivables	20,000	95,000
Finance lease receivables	89,947	13,774
Others	(12,986)	2,241
Total	737,106	839,047

11 INCOME TAX EXPENSE

(a) Income tax for the period:

	Note	Six months ended 30 June	
		2017	2016
Current tax		719,661	812,527
Deferred tax	23	(38,605)	(168,019)
Adjustment for prior years		1,670	4,363
Total		682,726	648,871

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

11 INCOME TAX EXPENSE (Continued)

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

	Note	Six months ended 30 June	
		2017	2016
Profit before tax		3,007,725	2,779,969
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		751,931	694,992
Non-deductible expenses		2,248	13,861
Non-taxable income	(1)	(73,123)	(64,345)
Adjustment for prior period		1,670	4,363
Income tax		682,726	648,871

- (1) Non-taxable income consists of interest income from the PRC government bonds and share of profits of associates, which are exempted from income tax under the PRC tax regulations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

12 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended 30 June	
		2017	2016
Net profit attributable to equity shareholders of the Bank		2,271,396	2,121,760
Weighted average number of ordinary shares (in thousand shares)	(a)	5,321,932	5,291,932
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.43	0.40

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

(a) Weighted average number of ordinary shares (in thousand shares)

	Six months ended 30 June	
	2017	2016
Number of ordinary shares as at 1 January	5,321,932	5,141,932
Increase in weighted average number of ordinary shares	–	150,000
Weighted average number of ordinary shares	5,321,932	5,291,932

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June 2017	31 December 2016
Cash on hand		754,334	956,980
Deposits with central bank			
– Statutory deposit reserves	(a)	28,862,359	27,768,576
– Surplus deposit reserves	(b)	15,871,452	13,824,798
– Fiscal deposits		180,881	36,008
Sub-total		44,914,692	41,629,382
Total		45,669,026	42,586,362

- (a) The Bank and its subsidiaries place statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the relevant 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 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

14 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	2,147,066	347,715
– Other financial institutions	168,694	873,854
Sub-total	2,315,760	1,221,569
Deposits outside mainland China		
– Banks	2,011,478	193,359
Total	4,327,238	1,414,928

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Placements in mainland China		
– Banks	15,344,016	11,758,215
Placements outside mainland China		
– Banks	7,500	–
Total	15,351,516	11,758,215

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**

(Expressed in thousands of Renminbi, unless otherwise stated)

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	30 June 2017	31 December 2016
Debt securities held for trading purpose	(a)	9,981,782	8,551,297
Investment funds held for trading purpose		–	394,800
Total		9,981,782	8,946,097

(a) Debt securities held for trading purpose Mainland China

	Note	30 June 2017	31 December 2016
– Government		1,690,734	519,614
– Policy banks		3,900,778	4,218,398
– Banks and other financial institutions		3,965,895	3,809,461
– Corporate		424,375	3,824
Sub-total		9,981,782	8,551,297
Debt securities analysed into			
– Listed outside Hong Kong		1,945,271	519,614
– Unlisted		8,036,511	8,031,683
Sub-total	(1)	9,981,782	8,551,297

- (1) As at the end of the reporting period, certain financial assets at fair value through profit or loss was pledged for repurchase agreements (Note 40(f)). No other investments were subject to material restrictions on the realization.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In mainland China		
– Banks	14,084,711	3,678,558
– Other financial institutions	18,863,617	1,441,010
Total	32,948,328	5,119,568

(b) Analysed by type of collateral

	30 June 2017	31 December 2016
Debt securities	29,236,215	3,812,610
Bills	3,712,113	1,306,958
Total	32,948,328	5,119,568

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2017	31 December 2016
Corporate loans and advances	91,112,528	81,254,576
Personal loans and advances		
– Personal business loans	12,554,824	11,750,766
– Residential mortgage	8,659,959	6,861,790
– Personal consumption loans	6,168,734	4,841,835
– Auto loans	516,297	490,848
– Credit card	984,063	870,069
– Others	6	8
Sub-total	28,883,883	24,815,316
Discounted bills	1,956,642	5,022,347
Gross loans and advances to customers	121,953,053	111,092,239
Less: Provision for impairment losses		
– Individually assessed	(545,789)	(536,463)
– Collectively assessed	(2,961,814)	(2,922,369)
Total provision for impairment losses	(3,507,603)	(3,458,832)
Net loans and advances to customers	118,445,450	107,633,407

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by economic sector

	30 June 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail	33,163,553	27.19%	19,627,481
Manufacturing	15,545,753	12.75%	4,608,148
Construction	12,458,463	10.22%	7,417,968
Real estate	9,551,117	7.83%	7,970,810
Leasing and commercial services	5,142,999	4.22%	2,289,407
Water, environment and public facility management	3,119,398	2.56%	2,367,685
Agriculture, forestry, animal husbandry and fishery	2,679,087	2.20%	1,273,957
Transportation, storage and postal services	2,069,839	1.70%	441,477
Production and supply of electric and heating power, gas and water	1,628,675	1.34%	285,290
Accommodation and catering	1,117,863	0.92%	842,013
Public administration, public security and social organisations	920,000	0.75%	470,000
Mining	317,642	0.26%	114,000
Culture, sports and entertainment	260,580	0.21%	83,250
Others	3,137,559	2.56%	861,521
Sub-total of corporate loans and advances	91,112,528	74.71%	48,653,007
Personal loans and advances	28,883,883	23.68%	19,971,631
Discounted bills	1,956,642	1.61%	1,011,647
Gross loans and advances to customers	121,953,053	100.00%	69,636,285

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by economic sector (Continued)

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail	29,897,940	26.91%	15,395,515
Manufacturing	13,054,621	11.75%	4,240,768
Construction	10,687,023	9.62%	6,463,753
Real estate	8,737,171	7.87%	7,389,971
Leasing and commercial services	4,092,399	3.68%	1,277,101
Agriculture, forestry, animal husbandry and fishery	3,619,829	3.26%	2,166,841
Water, environment and public facility management	2,087,799	1.88%	1,820,585
Mining	1,508,926	1.36%	456,130
Production and supply of electric and heating power, gas and water	1,390,580	1.25%	261,680
Transportation, storage and postal services	1,360,934	1.23%	402,372
Accommodation and catering	1,081,650	0.97%	784,357
Public administration, public security and social organisations	914,058	0.82%	–
Culture, sports and entertainment	210,300	0.19%	40,750
Others	2,611,346	2.35%	675,321
Sub-total of corporate loans and advances	81,254,576	73.14%	41,375,144
Personal loans and advances	24,815,316	22.34%	16,865,959
Discounted bills	5,022,347	4.52%	2,401,298
Gross loans and advances to customers	111,092,239	100.00%	60,642,401

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by economic sector (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	30 June 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Wholesale and retail	399,622	154,803	993,810	233,559	251,052
Manufacturing	800,326	325,618	597,301	187,204	67,471
Construction	39,076	21,738	307,397	23,377	10,708

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Wholesale and retail	373,063	152,737	1,022,650	843,830	439,737
Manufacturing	688,535	322,270	500,415	317,696	101,000

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Analysed by type of collateral

	30 June 2017	31 December 2016
Unsecured loans	9,679,245	7,659,802
Guaranteed loans	42,637,523	42,790,036
Loans secured by tangible assets other than monetary assets	37,540,758	33,254,544
Loans secured by intangible assets or monetary assets	32,095,527	27,387,857
Gross loans and advances to customers	121,953,053	111,092,239
Less: Provision for impairment losses		
– Individually assessed	(545,789)	(536,463)
– Collectively assessed	(2,961,814)	(2,922,369)
Total provision for impairment losses	(3,507,603)	(3,458,832)
Net loans and advances to customers	118,445,450	107,633,407

NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 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	6,108	5,304	548	–	11,960
Guaranteed loans	2,578,196	1,288,187	668,888	–	4,535,271
Loans secured by tangible assets other than monetary assets	736,854	252,122	218,951	530	1,208,457
Loans secured by intangible assets or monetary assets	58,469	23	23,500	–	81,992
Total	3,379,627	1,545,636	911,887	530	5,837,680
As a percentage of gross loans and advances to customers	2.77%	1.27%	0.75%	0.00%	4.79%

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

18 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	4,884	2,254	590	–	7,728
Guaranteed loans	2,353,023	1,069,032	246,806	–	3,668,861
Loans secured by tangible assets other than monetary assets	642,044	373,859	97,625	530	1,114,058
Loans secured by intangible assets or monetary assets	217,572	90,990	3,500	–	312,062
Total	3,217,523	1,536,135	348,521	530	5,102,709
As a percentage of gross loans and advances to customers	2.90%	1.38%	0.31%	0.00%	4.59%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Loans and advances and provision for impairment losses

	30 June 2017				
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	120,273,526	295,464	1,384,063	121,953,053	1.38%
Less: Provision for impairment losses	(2,836,852)	(124,962)	(545,789)	(3,507,603)	
Net loans and advances to customers	117,436,674	170,502	838,274	118,445,450	

	31 December 2016				
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	109,635,175	240,777	1,216,287	111,092,239	1.31%
Less: Provision for impairment losses	(2,821,668)	(100,701)	(536,463)	(3,458,832)	
Net loans and advances to customers	106,813,507	140,076	679,824	107,633,407	

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(f) Movements of provision for impairment losses

	Six months ended 30 June 2017			Total
	Provision for impaired loans and advances			
	Provision for loans and advances which are collectively assessed	which are collectively assessed	which are individually assessed	
As at 1 January	2,821,668	100,701	536,463	3,458,832
Charge for the period	1,140	240,713	488,237	730,090
Release for the period	–	–	(89,945)	(89,945)
Recoveries	–	2,594	5,973	8,567
Write-offs	–	(225,833)	(375,373)	(601,206)
Unwinding of discount	–	–	(25,994)	(25,994)
Acquisition of subsidiaries	14,044	6,787	6,428	27,259
As at 30 June	2,836,852	124,962	545,789	3,507,603

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	Year ended 31 December 2016			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January	2,282,729	20,408	386,153	2,689,290
Charge for the year	699,255	253,857	1,113,765	2,066,877
Release for the year	–	–	(94,515)	(94,515)
Recoveries	–	2,490	3,000	5,490
Disposals	–	–	(265,471)	(265,471)
Write-offs	(160,316)	(176,054)	(557,094)	(893,464)
Unwinding of discount	–	–	(49,375)	(49,375)
As at 31 December	2,821,668	100,701	536,463	3,458,832

19 FINANCIAL INVESTMENTS

	Note	30 June 2017	31 December 2016
Available-for-sale financial assets	(a)	26,263,292	6,301,789
Held-to-maturity investments	(b)	55,250,098	49,671,048
Loans and receivables	(c)	92,329,884	118,224,916
Total		173,843,274	174,197,753

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (Continued)

(a) Available-for-sale financial assets

	Note	30 June 2017	31 December 2016
Debt securities at fair value			
– Policy banks		–	1,202,185
– Banks and other financial institutions		5,198,291	–
– Corporate		222,076	119,091
Sub-total	(1)	5,420,367	1,321,276
Other debt investment			
– Unlisted		20,834,525	4,972,113
Equity investment at cost			
– Unlisted	(2)	8,400	8,400
Total	(3)	26,263,292	6,301,789

(1) All of debt securities are unlisted.

(2) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment.

(3) As at the end of the reporting period, certain available-for-sale financial assets was pledged for repurchase agreements (Note 40(f)). No other investments was subject to material restrictions on the realization.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (Continued)

(b) Held-to-maturity investments

	30 June 2017	31 December 2016
Debt securities		
– Government	16,288,834	14,263,579
– Policy banks	27,873,452	27,448,753
– Banks and other financial institutions	7,375,975	3,107,483
– Corporate	3,711,837	4,851,233
Total	55,250,098	49,671,048
Debt securities analysed into:		
– Listed outside Hong Kong	18,529,179	16,051,048
– Unlisted	36,720,919	33,620,000
Total	55,250,098	49,671,048

- (1) As at 30 June 2017, certain held-to-maturity investments was pledged for repurchase agreements (Note 40(f)). No other investments were subject to material restrictions on the realization.
- (2) For the period of ended 30 June 2017, the carrying amount of held-to-maturity securities that were disposed off amounted of RMB703 million, which accounted for 1.41% of the total amount of the Group's held-to-maturity investments before the disposal (for the year ended 31 December 2016, the Group had not disposed any debt securities which are classified as held-to-maturity).

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (Continued)

(c) Loans and receivables

	30 June 2017	31 December 2016
Investment management products under trust scheme	44,330,737	52,794,468
Investment management products managed by securities companies	30,494,719	45,079,359
Factoring and finance lease beneficial interest plan	15,582,831	13,150,125
Others	2,461,610	7,720,977
Sub-total	92,869,897	118,744,929
Less: Provision for impairment losses		
– Individually assessed	(28,385)	(25,428)
– Collectively assessed	(511,628)	(494,585)
Total provision for impairment losses	(540,013)	(520,013)
Total	92,329,884	118,224,916

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL LEASE RECEIVABLES

	30 June 2017	31 December 2016
Minimum finance lease receivables	11,119,461	6,645,653
Less: Unearned finance lease income	(1,270,409)	(866,803)
Present value of finance lease receivables	9,849,052	5,778,850
Less: Provision for impairment losses		
– Collectively assessed	(147,736)	(57,789)
Total	9,701,316	5,721,061

- (1) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	30 June 2017			31 December 2016		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	2,678,169	(490,526)	2,187,643	1,432,250	(312,201)	1,120,049
1 year to 2 years	2,804,049	(361,151)	2,442,898	1,669,236	(242,447)	1,426,789
2 years to 3 years	2,509,364	(249,060)	2,260,304	1,247,086	(163,861)	1,083,225
3 years to 5 years	3,093,601	(166,075)	2,927,526	2,220,050	(136,482)	2,083,568
More than 5 years	34,278	(3,597)	30,681	77,031	(11,812)	65,219
	11,119,461	(1,270,409)	9,849,052	6,645,653	(866,803)	5,778,850

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL LEASE RECEIVABLES *(Continued)*

(2) Movements of provision for impairment losses:

	30 June 2017	31 December 2016
As at 1 January	57,789	–
Charge for the period/year	89,947	57,789
As at 30 June/31 December	147,736	57,789

21 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES

(a) Investment in subsidiaries

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

Name	Percentage of equity interest		Voting rights 30 June 2017 %	Paid-in capital	Amount invested by the Bank	Place of incorporation registration	Principal activities
	30 June 2017 %	31 December 2016 %					
	Fugou Zhengyin County Bank Co., Ltd.	50.20					
Xinmi Zhengyin County Bank Co., Ltd. ("Xinmi Zhengyin")	51.50	20.00	51.50	100,000	60,283	China	Banking
Henan Jiuding Financial Leasing Co., Ltd.	51.00	51.00	51.00	1,000,000	510,000	China	Leasing

(1) Fugou Zhengyin County Bank Co., Ltd. was incorporated on 3 December 2015. Henan Jiuding Financial Leasing Co., Ltd. was incorporated on 23 March 2016. The two subsidiaries have no material non-controlling interest to the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (Continued)

(a) Investment in subsidiaries (Continued)

- (2) The Bank acquired 31.50% of Xinmi Zhengyin's equity interest during the period with a cash consideration of RMB34,650 thousands of which RMB31,185 thousands were paid in 2016. After the transaction, the Bank held 51.50% of Xinmi Zhengyin's equity interest, and Xinmi Zhengyin became a subsidiary of the Bank since 1 January 2017. The subsidiary has no material non-controlling interest to the Group.

(b) Interest in associates

	30 June 2017	31 December 2016
Interest in associates	248,371	255,195
Total	248,371	255,195

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price are not available:

Name	Note	Percentages of equity/voting rights%		Place of incorporation/ registration	Business sector
		30 June 2017	31 December 2016		
Zhongmu Zhengyin County Bank Co., Ltd.	(1)	18.53	18.53	China	Banking
Yanling Zhengyin County Bank Co., Ltd.		30.00	30.00	China	Banking
Xinzheng Zhengyin Country Bank Co., Ltd.		20.00	20.00	China	Banking

- (1) The Group has representation on the board of directors of Zhongmu Zhengyin County Bank Co., Ltd., and has significant influence over it.

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES
(Continued)

(a) Investment in subsidiaries *(Continued)*

The following table illustrates the aggregate information of the Group's associates that are not individually material:

	30 June 2017	31 December 2016
Aggregate carrying amount of the individually immaterial associates in the consolidated statements of financial position of the Group	248,371	255,195
Aggregate amounts of the Group's share of results of the associates		
– Profit from continuing operations	18,810	57,443
– Other comprehensive income	–	–
– Total comprehensive income	18,810	57,443

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at 1 January 2016	1,306,877	401,888	15,275	184,192	106,861	2,015,093
Additions	101,472	71,077	1,464	40,741	29,213	243,967
Disposals	(749)	(7,231)	(2,356)	(24,653)	–	(34,989)
As at 31 December 2016	1,407,600	465,734	14,383	200,280	136,074	2,224,071
Additions	78,803	22,951	877	23,284	2,271	128,186
As at 30 June 2017	1,486,403	488,685	15,260	223,564	138,345	2,352,257
Accumulated depreciation						
As at 1 January 2016	(127,180)	(181,591)	(12,409)	(85,348)	–	(406,528)
Additions	(38,876)	(65,555)	(1,203)	(42,090)	–	(147,724)
Disposals	711	6,832	2,239	23,393	–	33,175
As at 31 December 2016	(165,345)	(240,314)	(11,373)	(104,045)	–	(521,077)
Additions	(20,891)	(45,075)	(1,296)	(24,378)	–	(91,640)
As at 30 June 2017	(186,236)	(285,389)	(12,669)	(128,423)	–	(612,717)
Impairment						
As at 1 January 2016/ 31 December 2016/30 June 2017	(1,355)	(1,893)	–	(756)	–	(4,004)
Net book value						
As at 31 December 2016	1,240,900	223,527	3,010	95,479	136,074	1,698,990
As at 30 June 2017	1,298,812	201,403	2,591	94,385	138,345	1,735,536

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 PROPERTY AND EQUIPMENT (Continued)

The carrying amount of premises without title deeds as at 30 June 2017 was RMB256 million (31 December 2016: RMB308 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The Group expected that there would be no significant cost in obtaining the title deeds.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	30 June 2017	31 December 2016
Held in mainland China		
– Medium term leases (10 – 50 years)	1,293,362	1,235,010
– Short term leases (less than 10 years)	5,450	5,890
Total	1,298,812	1,240,900

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 DEFERRED TAX ASSETS

(a) Analysed by nature

	30 June 2017		31 December 2016	
	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Allowance for impairment losses	3,753,838	938,459	3,602,040	900,510
Accrued staff costs	213,787	53,447	215,640	53,910
Fair value changes in financial instruments	5,565	1,391	(1,580)	(395)
Provisions	60,519	15,130	57,040	14,260
Cumulative tax loss of the subsidiaries	5,493	1,373	5,493	1,373
Net deferred income tax assets	4,039,202	1,009,800	3,878,633	969,658

(b) Analysed by movement

	Recognised in other comprehensive income			At 30 June 2017
	At 1 January 2017	Recognised in profit or loss		
Allowance for impairment losses	900,510	37,949	–	938,459
Accrued staff costs	53,910	(2,138)	1,675	53,447
Fair value changes in financial instruments	(395)	1,924	(138)	1,391
Provisions	14,260	870	–	15,130
Cumulative tax losses of the subsidiary	1,373	–	–	1,373
Net deferred income tax assets	969,658	38,605	1,537	1,009,800

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 DEFERRED TAX ASSETS (Continued)

(b) Analysed by movement

	At 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Allowance for impairment losses	533,253	367,257	–	900,510
Accrued staff costs	58,822	(3,885)	(1,027)	53,910
Fair value changes in financial instruments	(14,137)	11,220	2,522	(395)
Provisions	10,735	3,525	–	14,260
Cumulative tax losses of the subsidiary	470	903	–	1,373
Net deferred income tax assets	589,143	379,020	1,495	969,658

24 OTHER ASSETS

	Note	30 June 2017	31 December 2016
Interest receivables	(a)	2,152,071	1,959,892
Prepayments		1,639,997	3,451,419
Intangible assets	(b)	150,319	147,050
Leasehold improvements		116,915	131,789
Other receivables		241,983	201,315
Sub-total		4,301,285	5,891,465
Less: allowance for impairment losses		(28,262)	(44,727)
Total		4,273,023	5,846,738

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 OTHER ASSETS (Continued)

(a) Interest receivables

	30 June 2017	31 December 2016
Interest receivables arising from:		
– Investments	1,601,920	1,536,913
– Loans and advances to customers	286,436	238,092
– Others	263,715	184,887
Sub-total	2,152,071	1,959,892
Less: allowance for impairment losses	(19,397)	(19,397)
Total	2,132,674	1,940,495

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

24 OTHER ASSETS (Continued)

(b) Intangible assets

	30 June 2017	31 December 2016
Cost		
As at 1 January	229,521	165,494
Additions	16,468	64,027
As at 30 June/31 December	245,989	229,521
Accumulated amortisation		
As at 1 January	(82,471)	(57,658)
Additions	(13,199)	(24,813)
As at 30 June/31 December	(95,670)	(82,471)
Impairment		
As at 1 January	(145)	(145)
As at 30 June/31 December	(145)	(145)
Net book value		
As at 1 January	146,905	107,691
As at 30 June/31 December	150,174	146,905

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 DUE TO CENTRAL BANK

	30 June 2017	31 December 2016
Due to central bank	1,091,550	77,000
Total	1,091,550	77,000

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
In mainland China		
– Banks	25,304,542	24,601,073
– Other financial institutions	446,665	1,207,180
Total	25,751,207	25,808,253

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
In mainland China		
– Banks	25,769,010	18,505,611
– Non-bank financial institutions	–	600,000
Total	25,769,010	19,105,611

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In mainland China		
– PBOC	7,914,055	27,000,000
– Banks	20,209,200	5,887,510
– Other financial institutions	601,300	363,860
Total	28,724,555	33,251,370

(b) Analysed by type of collateral

	30 June 2017	31 December 2016
Debt securities	28,690,500	33,251,370
Bills sold under repurchase agreements	34,055	–
Total	28,724,555	33,251,370

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEPOSITS FROM CUSTOMERS

	30 June 2017	31 December 2016
Demand deposits		
– Corporate deposits	89,464,962	77,197,449
– Personal deposits	16,341,777	16,177,507
Sub-total	105,806,739	93,374,956
Time deposits		
– Corporate deposits	70,912,865	54,782,696
– Personal deposits	50,666,795	44,647,136
Sub-total	121,579,660	99,429,832
Pledged deposits		
– Acceptances	14,124,557	19,581,940
– Letters of guarantees	1,771,499	1,871,430
– Letters of credit	842,052	983,350
– Others	711,543	817,970
Sub-total	17,449,651	23,254,690
Others	565,228	330,162
Total	245,401,278	216,389,640

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEBT SECURITIES ISSUED

	Note	30 June 2017	31 December 2016
Financial bonds	(a)	2,600,000	2,600,000
Tier-two capital bonds	(b)	6,997,283	4,997,944
Interbank deposits		50,547,668	37,062,502
Total		60,144,951	44,660,446

(a) Fixed rate financial bonds of RMB2.6 billion with a term of five years was issued in May 2013. The coupon rate is 4.80% per annum.

(b) Tier-two capital bonds

Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in March 2017. The coupon rate is 4.80% per annum.

Fixed rate tier-two capital bonds of RMB3.0 billion with a term of ten years were issued in December 2016. The coupon rate is 4.10% per annum.

Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in December 2014. The coupon rate is 5.73% per annum.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES

	Note	30 June 2017	31 December 2016
Interest payable	(a)	3,433,757	3,095,586
Accrued staff costs	(b)	322,543	367,387
Dormant accounts		78,821	80,985
Payment and collection clearance accounts		2,740,747	146,229
Dividend payable		28,205	23,373
Provisions		60,519	57,040
Others		593,371	634,003
Total		7,257,963	4,404,603

(a) Interest payable

	30 June 2017	31 December 2016
Interest payable arising from:		
– Deposits from customers	2,707,380	2,587,932
– Deposits and placements from banks and other financial institutions	545,012	398,501
– Debt securities issued	166,796	82,372
– Financial assets sold under repurchase agreements	13,743	26,740
– Due to central bank	826	41
Total	3,433,757	3,095,586

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (Continued)

(b) Accrued staff costs

Note	30 June 2017	31 December 2016
Salary, bonuses and allowances payable	93,185	132,572
Staff welfare	46	4,529
Social insurance and annuity payable	4,676	2,613
Housing allowances payable	31	131
Labor union fee, staff and workers' education fee	10,818	11,902
Supplementary retirement benefits payable (1)	213,787	215,640
Total	322,543	367,387

(1) *Supplementary retirement benefits ("SRB")*

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits payments is provided 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. The supplementary retirement plan is provided to the Group's eligible employees.

The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Mercer Consulting (China) Ltd..

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (Continued)

(b) Accrued staff costs (Continued)

(1) Supplementary retirement benefits ("SRB") (Continued)

(i) The balances of supplementary retirement benefits of the Group are as follows:

	30 June 2017	31 December 2016
Present value of early retirement plan	33,485	41,664
Present value of supplementary retirement plan	180,302	173,976
Total	213,787	215,640

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	30 June 2017	31 December 2016
As at 1 January	215,640	235,287
Benefits paid during the period/year	(9,017)	(22,855)
Defined benefit cost recognised in profit or loss	461	7,315
Defined benefit cost recognised in other comprehensive income	6,703	(4,107)
As at 30 June/31 December	213,787	215,640

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (Continued)

(b) Accrued staff costs (Continued)

(1) Supplementary retirement benefits ("SRB") (Continued)

(iii) Key actuarial assumptions of the Group are as follows:

Early retirement plan	30 June 2017	31 December 2016
Discount rate	3.50%	2.80%
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	5.00%	8.00%
Supplementary retirement plan		
	30 June 2017	31 December 2016
Discount rate	3.90%	3.50%
Retired age		
– Male	60	60
– Female	55	55
Death rate for age 20 – 105		
	30 June 2017	31 December 2016
– Male	0.0248% – 100%	0.054% – 100%
– Female	0.012% – 100%	0.0246% – 100%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 SHARE CAPITAL

Authorised and issued share capital

	30 June 2017	31 December 2016
Ordinary shares in Mainland China	3,803,932	3,803,932
Ordinary shares listed in Hong Kong (H-share) (H-share)	1,518,000	1,518,000
Total	5,321,932	5,321,932

In December 2015, the Bank issued 1,200 million H-shares with a par value of RMB1 at an offering price of HKD3.85 per share (the “H-share offering”). The premium arising from the H-share offering amounting to RMB2,562 million was recorded in capital reserve. Immediately following the H-share offering, 120 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

In January 2016, the Bank issued 180 million H-shares (H-shares’ over-allotment option) with a par value of RMB1 at an offering price of HKD3.85 per share. The premium arising from the H-share offering amounting to RMB392 million was recorded in capital reserve.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited since 20 January, 2016. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

**NOTES TO THE UNAUDITED INTERIM
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(Expressed in thousands of Renminbi, unless otherwise stated)

33 RESERVES

(a) Capital reserve

	30 June 2017	31 December 2016
Share premium	2,990,312	2,990,312
Others	63,892	63,892
Total	3,054,204	3,054,204

(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 of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP 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 may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

With effect from 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 RESERVES (Continued)

(d) Fair value reserve

	2017	2016
As at 1 January	2,841	10,405
Change in fair value recognised in other comprehensive income	6,365	33,961
Transfer to profit or loss upon disposal	(5,813)	(44,047)
Less: deferred income tax	(138)	2,522
Sub-total	414	(7,564)
As at 30 June/31 December	3,255	2,841

(e) Remeasurement of net defined benefit liability

Remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2017	2016
As at 1 January	(52,259)	(55,339)
Remeasurement of net defined benefit liability	(6,703)	4,107
Less: deferred income tax	1,675	(1,027)
Sub-total	(5,028)	3,080
As at 30 June/31 December	(57,287)	(52,259)

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

34 PROFIT DISTRIBUTION

- (a) In accordance with the resolution of the Bank's 2016 Annual General Meeting held on 19 May 2017, the shareholders approved the profit distribution plan for the year ended 31 December 2016 and declared cash dividends of RMB2.20 per ten shares before tax and in an aggregation amount of approximately RMB1,171 million to all existing shareholders.
- (b) In accordance with the resolution of the Bank's 2015 Annual General Meeting held on 17 June 2016, the shareholders approved the profit distribution plan for the year ended 31 December 2015 and declared cash dividends of RMB2.00 per ten shares before tax and in an aggregation amount of approximately RMB1,064 million to all existing shareholders.

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	30 June 2017	31 December 2016
Cash on hand	754,334	956,980
Surplus deposit reserves with central bank	15,871,452	13,824,798
Deposits with banks and other financial institutions with original maturity of three months or less	4,121,333	1,341,021
Total	20,747,119	16,122,799

(b) Information on acquisition of a subsidiary during the period:

	Six months ended 30 June	
	2017	2016
Cash and cash equivalents paid during the period for acquiring a subsidiary	3,465	–
Less: Cash and cash equivalents held by acquired subsidiary	(71,901)	–
Net proceeds from acquisition of a subsidiary	(68,436)	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding.

Shareholding in the Bank:

	30 June 2017	31 December 2016
Zhengzhou Finance Bureau	9.22%	9.22%

(ii) Subsidiaries and associates of the Bank

The detailed information of the Bank's subsidiaries and associates is set out in Note 21.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 36 (a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Bank (Note 31(b)).

(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.

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS
(Continued)

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

(i) Transactions with major shareholders

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Deposits from customers	183,361	473,204
Interest payable	19	50
Other liabilities	64,285	64,285

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest expense	567	335

(ii) Transactions with subsidiaries

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Deposits with banks and other financial institutions	100,000	–
Interest receivables	127	–
Deposits from banks and other financial institutions	198,581	450,774
Interest payable	139	556

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(b) Related party transactions and balances (Continued)

(ii) Transactions with subsidiaries (Continued)

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	1,987	–
Interest expense	12,039	3,819

The above balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(iii) Transactions with associates

	30 June	31 December
	2017	2016
Balances at the end of the period/year		
Deposits/placements with banks and other financial institutions	100,904	50,900
Interest receivables	140	1,330
Deposits/placements from banks and other financial institutions	73,972	169,982
Interest payable	15	37

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS
(Continued)

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

(iii) Transactions with associates *(Continued)*

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	816	4,488
Interest expense	434	23,580

(iv) Transactions with other major related parties

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Loans and advances to customers	1,167,336	1,941,111
Financial investments classified as loans and receivables	390,000	1,500,000
Interest receivables	5,717	4,534
Deposits from customers	3,622,509	4,285,915
Deposits/placements from banks and other financial institutions	7,707	114,674
Interest payable	7,734	4,760

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(b) Related party transactions and balances (Continued)

(iv) Transactions with other major related parties (Continued)

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	38,512	57,020
Interest expense	13,656	14,022

(c) Key management personnel

(i) Transactions with key management personnel

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Loans and advances to customers	7,832	8,582
Interest receivables	10	11
Deposits from customers	11,012	19,258
Interest payable	3	4

	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	176	185
Interest expense	53	39

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(c) Key management personnel (Continued)

(ii) Key management personnel remuneration

	Six months ended 30 June	
	2017	2016
Salaries and other emoluments	6,228	5,338
Discretionary bonuses	11,175	7,804
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	1,556	1,213
Total	18,959	14,355

No post-employment benefits, termination benefits or other long-term benefits were provided to key management personnel for the period ended 30 June 2017 and 30 June 2016.

37 SEGMENT REPORTING

(a) Business Segment

The Group manages its business by business lines. 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 finance and deposit taking activities, agency services, and remittance and settlement services.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 SEGMENT REPORTING (Continued)

(a) Business Segment (Continued)

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.

Treasury business

This segment covers the Group's treasury business including interbank money market transactions, repurchases transactions and investments. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

Others

These 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)**

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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	1,443,954	344,064	2,271,576	–	4,059,594
Internal net interest income/ (expense)	204,201	509,798	(713,999)	–	–
Net interest income	1,648,155	853,862	1,557,577	–	4,059,594
Net fee and commission income	373,619	98,417	437,274	–	909,310
Net trading losses	–	–	(163,299)	–	(163,299)
Net gains arising from investments	–	–	33,456	–	33,456
Other operating income	–	–	–	20,766	20,766
Operating income	2,021,774	952,279	1,865,008	20,766	4,859,827
Operating expenses	(531,050)	(264,648)	(328,102)	(10,006)	(1,133,806)
Impairment losses on assets	(457,067)	(260,039)	(20,000)	–	(737,106)
Operating profit	1,033,657	427,592	1,516,906	10,760	2,988,915
Share of profits of associates	–	–	–	18,810	18,810
Profit before taxation	1,033,657	427,592	1,516,906	29,570	3,007,725
Other segment information					
– Depreciation and amortisation	64,385	38,499	19,198	–	122,082
– Capital expenditure	76,073	38,406	45,597	390	160,466

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 SEGMENT REPORTING (Continued)

(a) Business Segment (Continued)

	30 June 2017				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	131,319,941	44,220,935	239,311,927	1,672,057	416,524,860
Deferred tax assets					1,009,800
Total assets					417,534,660
Segment liabilities/ Total liabilities	178,024,474	71,961,775	142,436,764	2,038,552	394,461,565
Credit commitments	58,685,842	1,164,446	–	–	59,850,288

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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	1,293,265	345,295	2,301,485	–	3,940,045
Internal net interest income/ (expense)	460,720	308,104	(768,824)	–	–
Net interest income	1,753,985	653,399	1,532,661	–	3,940,045
Net fee and commission income	230,913	47,404	313,998	–	592,315
Net trading gains	–	–	(61,138)	–	(61,138)
Net gains arising from investments	–	–	155,694	–	155,694
Other operating income	–	–	–	75,391	75,391
Operating income	1,984,898	700,803	1,941,215	75,391	4,702,307
Operating expenses	(552,551)	(225,536)	(316,261)	(10,101)	(1,104,449)
Impairment losses on assets	(714,836)	(29,211)	(95,000)	–	(839,047)
Operating profit	717,511	446,056	1,529,954	65,290	2,758,811
Share of profits of associates	–	–	–	21,158	21,158
Profit before taxation	717,511	446,056	1,529,954	86,448	2,779,969
Other segment information					
– Depreciation and amortisation	56,879	31,046	13,890	–	101,815
– Capital expenditure	47,736	26,055	11,657	817	86,265

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 SEGMENT REPORTING (Continued)

(a) Business Segment (Continued)

	31 December 2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	121,525,598	37,659,309	204,406,701	1,586,706	365,178,314
Deferred tax assets					969,658
Total assets					366,147,972
Segment liabilities/ Total liabilities	153,771,965	65,315,377	124,399,087	800,168	344,286,597
Credit commitments	62,277,614	1,005,794	–	–	63,283,408

(b) Geographical information

Geographically, the Group mainly conducts its business in Henan Province of the PRC and majority of its customers and assets are located in Henan Province of the PRC.

38 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

The Board of Directors (the “Board”) is the highest decision-making authority within the Group in terms of risk management and oversees the Group’s risk management functions through the Risk Management 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.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Management 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 credit and debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for establishing the Group’s risk management strategies 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 credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Management Department is responsible for credit risk management. Departments such as the Corporate Business Department, the Retail Banking Department, the Financial Department of Small Business, the Interbank Department, Investment Banking Department and the Financial Markets Department carry out credit businesses and investments portfolios business according to the Group’s risk management policies and procedures.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

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.

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.

**NOTES TO THE UNAUDITED INTERIM
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(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business

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

(1) 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 each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the reporting period is disclosed in Note 40(a).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) Loans and advances to customers

	Note	30 June 2017	31 December 2016
Gross balance of loans and advances to customers			
– Neither overdue nor impaired	(i)	115,995,240	105,873,597
– Overdue but not impaired	(ii)	4,278,286	3,761,578
– Impaired	(iii)	1,679,527	1,457,064
Sub-total		121,953,053	111,092,239
Less: allowance for impairment loss			
– Neither overdue nor impaired		(2,267,619)	(2,326,501)
– Overdue but not impaired		(569,233)	(495,167)
– Impaired		(670,751)	(637,164)
Sub-total		(3,507,603)	(3,458,832)
Net balance			
– Neither overdue nor impaired		113,727,621	103,547,096
– Overdue but not impaired		3,709,053	3,266,411
– Impaired		1,008,776	819,900
Total		118,445,450	107,633,407

**NOTES TO THE UNAUDITED INTERIM
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(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) *Loans and advances to customers (Continued)*

- (i) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

	30 June 2017	31 December 2016
Corporate loans and advances	88,739,268	82,357,390
Personal loans and advances	27,255,972	23,516,207
Total gross balance	115,995,240	105,873,597

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) Loans and advances to customers (Continued)

(ii) Overdue but not impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at the end of the reporting period.

	30 June 2017				Total
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	910,736	1,581,576	408,561	44,966	2,945,839
Personal loans and advances	326,484	538,621	345,835	121,507	1,332,447
Total gross balance	1,237,220	2,120,197	754,396	166,473	4,278,286

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) Loans and advances to customers (Continued)

(ii) Overdue but not impaired (Continued)

	31 December 2016				Total
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	843,744	1,564,393	279,922	15,186	2,703,245
Personal loans and advances	328,796	468,962	260,175	400	1,058,333
Total gross balance	1,172,540	2,033,355	540,097	15,586	3,761,578
			30 June 2017	31 December 2016	
Fair value of collateral held against loans and advances overdue but not impaired			2,277,141	3,051,757	

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) Loans and advances to customers (Continued)

(iii) Impaired loans

	30 June 2017	31 December 2016
Gross balance		
– Corporate loans and advances	1,384,063	1,216,287
– Personal loans and advances	295,464	240,777
Sub-total	1,679,527	1,457,064
% of total loans and advances	1.38%	1.31%
Allowance for impairment losses		
– Corporate loans and advances	(545,789)	(536,463)
– Personal loans and advances	(124,962)	(100,701)
Sub-total	(670,751)	(637,164)
Net balance		
– Corporate loans and advances	838,274	679,824
– Personal loans and advances	170,502	140,076
Total	1,008,776	819,900
Fair value of collateral held against impaired loans and advances	1,080,430	697,242

**NOTES TO THE UNAUDITED INTERIM
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38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(2) *Loans and advances to customers (Continued)*

(iii) *Impaired loans (Continued)*

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iv) *Loans and advances rescheduled*

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrowers' financial conditions or of the borrowers' inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduling is most commonly applied to term loans. There were no rescheduled loans as at 30 June 2017 and 31 December 2016.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(3) 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
Carrying amount		
<i>Neither overdue nor impaired</i>		
– grade A to AAA	49,947,094	15,781,416
– grade B to BBB	2,515,409	1,635,441
– unrated	164,579	875,854
Total	52,627,082	18,292,711

(4) 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)**
(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(4) 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
Carrying amount		
<i>Neither overdue nor impaired</i>		
– Government	17,979,568	14,783,193
– Policy banks	31,774,230	32,869,336
– Banks and other financial institutions	16,540,161	6,916,944
– Corporate	4,358,288	4,974,148
Total	70,652,247	59,543,621

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Treasury Business (Continued)

(5) Financial investments classified as loans and receivables

	30 June 2017	31 December 2016
Gross balance of financial investments classified as loans and receivables		
– Neither overdue nor impaired	92,554,897	118,429,929
– Overdue but not impaired	225,000	225,000
– Impaired	90,000	90,000
Sub-total	92,869,897	118,744,929
Less: allowance for impairment loss		
– Neither overdue nor impaired	(431,370)	(417,727)
– Overdue but not impaired	(80,258)	(76,858)
– Impaired	(28,385)	(25,428)
Sub-total	(540,013)	(520,013)
Net balance		
– Neither overdue nor impaired	92,123,527	118,012,202
– Overdue but not impaired	144,742	148,142
– Impaired	61,615	64,572
	92,329,884	118,224,916
Fair value of collaterals held against financial investments classified as loans and receivables overdue but not impaired	357,929	780,228
Fair value of collaterals held against impaired financial investments classified as loans and receivables	61,615	64,572

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT *(Continued)*

(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.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Management Committee to supervise the market risk management conducted by the senior management. The Finance and Accounting Department, Transaction Banking Department 1, Financial Markets Department and Risk Management Department are responsible for identifying, measuring, monitoring and reporting the market risk.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

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.

(1) 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.

(i) 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 causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Finance and Accounting 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) 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	Within	Between	Between	More than five years
			three months (inclusive)	three months and one year (inclusive)	one year and five years (inclusive)	
Assets						
Cash and deposits with central bank	45,669,026	935,215	44,733,811	-	-	-
Deposits/placements with banks and other financial institutions	19,678,754	712,716	6,557,098	12,396,440	7,500	5,000
Financial assets held under resale agreements	32,948,328	-	32,948,328	-	-	-
Loans and advances to customers ⁽¹⁾	118,445,450	-	92,422,654	24,446,066	1,154,587	422,143
Investments ⁽²⁾	184,073,427	256,771	36,180,340	33,601,489	80,235,486	33,799,341
Finance lease receivables	9,701,316	-	9,701,316	-	-	-
Others	7,018,359	6,628,620	389,739	-	-	-
Total assets	417,534,660	8,533,322	222,933,286	70,443,995	81,397,573	34,226,484

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) Repricing risk (Continued)

	30 June 2017					
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Due to central bank	1,091,550	-	-	1,091,550	-	-
Deposits/placements from banks and other financial institutions	51,520,217	-	15,643,669	35,176,548	700,000	-
Financial assets sold under repurchase agreements	28,724,555	-	28,724,555	-	-	-
Deposits from customers	245,401,278	340,716	140,074,847	54,461,978	48,653,737	1,870,000
Debt securities issued	60,144,951	-	16,705,276	33,842,391	9,597,284	-
Others	7,579,014	7,579,014	-	-	-	-
Total liabilities	394,461,565	7,919,730	201,148,347	124,572,467	58,951,021	1,870,000
Asset-liability gap	23,073,095	613,592	21,784,939	(54,128,472)	22,446,552	32,356,484

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) Repricing risk (Continued)

	31 December 2016					More than five years
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	
Assets						
Cash and deposits with central bank	42,586,362	992,987	41,593,375	-	-	-
Deposits/placements with banks and other financial institutions	13,173,143	14,774	2,246,064	10,907,305	-	5,000
Financial assets held under resale agreements	5,119,568	-	5,119,568	-	-	-
Loans and advances to customers ⁽¹⁾	107,633,407	-	88,385,736	18,629,953	600,530	17,188
Investments ⁽²⁾	183,399,045	263,595	43,018,787	42,725,015	68,842,106	28,549,542
Finance lease receivables	5,721,061	-	5,721,061	-	-	-
Others	8,515,386	6,297,786	2,217,600	-	-	-
Total assets	366,147,972	7,569,142	188,302,191	72,262,273	69,442,636	28,571,730

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(i) Repricing risk (Continued)

	31 December 2016					More than five years
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	
Liabilities						
Due to central bank	77,000	-	-	77,000	-	-
Deposits/placements from banks and other financial institutions	44,913,864	-	14,429,075	29,784,789	700,000	-
Financial assets sold under repurchase agreements	33,251,370	-	33,251,370	-	-	-
Deposits from customers	216,389,640	319,554	124,472,530	50,290,988	41,306,568	-
Debt securities issued	44,660,446	-	10,321,123	26,741,379	7,597,944	-
Others	4,994,277	4,994,277	-	-	-	-
Total liabilities	344,286,597	5,313,831	182,474,098	106,894,156	49,604,512	-
Asset-liability gap	21,861,375	2,255,311	5,828,093	(34,631,883)	19,838,124	28,571,730

(1) For the Group's loans and advances to customers, the category "Within three months (inclusive)" as at 30 June 2017 includes overdue amounts (net of allowance for impairment losses) of RMB4,718 million (31 December 2016: RMB4,086 million).

(2) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates, the category "Within three months (inclusive)" as at 30 June 2017 includes overdue amounts (net of allowance for impairment losses) of RMB206 million (31 December 2016: RMB213 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

	30 June 2017	31 December 2016
	(Decrease)/ increase	(Decrease)/ increase
Change in net interest income		
Up 100 bps parallel shift in yield curves	(141,086)	(151,094)
Down 100 bps parallel shift in yield curves	141,086	151,094

	30 June 2017	31 December 2016
	(Decrease)/ increase	(Decrease)/ increase
Change in equity		
Up 100 bps parallel shift in yield curves	(155,361)	(175,169)
Down 100 bps parallel shift in yield curves	153,955	175,169

The sensitivity analysis above is based on a static interest risk exposure profile of assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net interest income 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:

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(1) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

- There are no other changes to the assets and liabilities portfolio, all the position will be held and keep unchanged after matured; 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 net interest income and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(2) 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)**
(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(2) Currency risk (Continued)

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

	30 June 2017			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with central bank	45,087,886	578,556	2,584	45,669,026
Deposits/placements with banks and other financial institutions	2,315,835	17,354,283	8,636	19,678,754
Financial assets held under resale agreements	32,948,328	–	–	32,948,328
Loans and advances to customers	118,180,697	264,753	–	118,445,450
Investments (i)	183,368,124	271,197	434,106	184,073,427
Finance lease receivables	9,701,316	–	–	9,701,316
Others	6,857,452	160,907	–	7,018,359
Total assets	398,459,638	18,629,696	445,326	417,534,660

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(2) Currency risk (Continued)

	30 June 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Due to central bank	1,091,550	–	–	1,091,550
Deposits/placements from banks and other financial institutions	51,520,217	–	–	51,520,217
Financial assets sold under repurchase agreements	28,724,555	–	–	28,724,555
Deposits from customers	229,121,093	16,280,039	146	245,401,278
Debt securities issued	60,144,951	–	–	60,144,951
Others	7,471,826	106,927	261	7,579,014
Total liabilities	378,074,192	16,386,966	407	394,461,565
Net position	20,385,446	2,242,730	444,919	23,073,095
Off-balance sheet credit commitments	59,105,974	744,314	–	59,850,288

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(2) Currency risk (Continued)

	RMB	31 December 2016		Total (RMB Equivalent)
		USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with central bank	41,924,686	658,977	2,699	42,586,362
Deposits/placements with banks and other financial institutions	1,217,234	11,860,728	95,181	13,173,143
Financial assets held under resale agreements	5,119,568	–	–	5,119,568
Loans and advances to customers	107,333,249	300,158	–	107,633,407
Investments ⁽ⁱ⁾	181,101,311	1,938,525	359,209	183,399,045
Finance lease receivables	5,721,061	–	–	5,721,061
Others	8,405,561	109,825	–	8,515,386
Total assets	350,822,670	14,868,213	457,089	366,147,972

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(2) Currency risk (Continued)

	RMB	31 December 2016		Total (RMB Equivalent)
		USD (RMB Equivalent)	Others (RMB Equivalent)	
Liabilities				
Due to central bank	77,000	–	–	77,000
Deposits/placements from banks and other financial institutions	44,913,864	–	–	44,913,864
Financial assets sold under repurchase agreements	33,251,370	–	–	33,251,370
Deposits from customers	203,931,962	12,457,528	150	216,389,640
Debt securities issued	44,660,446	–	–	44,660,446
Others	4,849,474	144,615	188	4,994,277
Total liabilities	331,684,116	12,602,143	338	344,286,597
Net position	19,138,554	2,266,070	456,751	21,861,375
Off-balance sheet credit commitments	62,092,376	1,191,032	–	63,283,408

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(2) Currency risk (Continued)

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates.

Change in profit after taxation and equity	30 June 2017 Increase/ (decrease)	31 December 2016 Increase/ (decrease)
Up 100 bps change of foreign exchange rate	2,976	2,944
Down 100 bps change of foreign exchange rate	(2,976)	(2,944)

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 based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- The foreign currency exposures calculated includes spot and forward foreign exchange exposures and swaps, and all the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(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 Group-wide liquidity risk by the head office, and established the Risk Management Committee which mainly comprises the Liquidity Risk Management Committee, the Asset and Liability Management Committee and the Finance and Accounting Department at the head office. The responsibilities of them are as following:

- the Risk Management Committee and the Asset and Liability Management Committee are the decision-making bodies for liquidity risk management and are responsible for formulating the guidelines and policies for liquidity risk management;
- the Finance and Accounting Department is the liquidity risk management department and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators; formulating, implementing and evaluating relevant systems, setting the Group-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; regularly carrying out risk analysis and reporting to the Risk Management Committee and the Asset and Liability Management Committee.

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, liquidity gap ratio, and etc.

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
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38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(1) 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	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets							
Cash and deposits with central bank	29,043,240	16,625,786	-	-	-	-	45,669,026
Deposits/placements with banks and other financial institutions	5,000	2,041,467	5,228,347	12,396,440	7,500	-	19,678,754
Financial assets held under resale agreements	-	-	32,948,328	-	-	-	32,948,328
Loans and advances to customers	3,556,306	2,133,097	17,130,693	62,114,417	21,973,940	11,536,997	118,445,450
Investments	463,129	-	20,220,723	46,102,882	83,375,276	33,911,417	184,073,427
Finance lease receivables	-	-	406,710	1,748,118	7,516,267	30,221	9,701,316
Others	2,895,510	4,340	1,457,607	1,950,488	709,993	421	7,018,359
Total assets	35,963,185	20,804,690	77,392,408	124,312,345	113,582,976	45,479,056	417,534,660

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(1) Maturity analysis (Continued)

	30 June 2017						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities							
Due to central bank	-	-	-	1,091,550	-	-	1,091,550
Deposits/placements from banks and other financial institutions	-	440,207	15,203,462	35,176,548	700,000	-	51,520,217
Financial assets sold under repurchase agreements	-	-	28,724,555	-	-	-	28,724,555
Deposits from customers	-	109,161,386	31,254,177	54,461,978	48,653,737	1,870,000	245,401,278
Debt securities issued	-	-	16,705,276	33,842,391	9,597,284	-	60,144,951
Others	-	2,065,433	4,600,858	258,135	533,576	121,012	7,579,014
Total liabilities	-	111,667,026	96,488,328	124,830,602	59,484,597	1,991,012	394,461,565
Long/(short) position	35,963,185	(90,862,336)	(19,095,920)	(518,257)	54,098,379	43,488,044	23,073,095

**NOTES TO THE UNAUDITED INTERIM
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(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(1) Maturity analysis (Continued)

	31 December 2016						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets							
Cash and deposits with central bank	27,804,585	14,781,777	-	-	-	-	42,586,362
Deposits/placements with banks and other financial institutions	5,000	1,269,028	991,810	10,907,305	-	-	13,173,143
Financial assets held under resale agreements	-	-	5,119,568	-	-	-	5,119,568
Loans and advances to customers	2,979,993	1,964,833	19,674,888	57,376,160	17,644,019	7,993,514	107,633,407
Investments	476,190	-	34,413,058	49,780,090	69,761,988	28,967,719	183,399,045
Finance lease receivables	-	-	243,257	865,592	4,547,646	64,566	5,721,061
Others	2,815,553	90,285	2,850,573	2,264,771	489,172	5,032	8,515,386
Total assets	34,081,321	18,105,923	63,293,154	121,193,918	92,442,825	37,030,831	366,147,972

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(1) Maturity analysis (Continued)

	31 December 2016						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities							
Due to central bank	-	-	-	77,000	-	-	77,000
Deposits/placements from banks and other financial institutions	-	1,170,375	13,258,700	29,784,789	700,000	-	44,913,864
Financial assets sold under repurchase agreements	-	-	33,251,370	-	-	-	33,251,370
Deposits from customers	-	96,415,037	28,377,046	50,290,989	41,306,568	-	216,389,640
Debt securities issued	-	-	10,321,123	26,741,379	7,597,944	-	44,660,446
Others	-	384,061	3,820,997	174,192	498,307	116,720	4,994,277
Total liabilities	-	97,969,473	89,029,236	107,068,349	50,102,819	116,720	344,286,597
Long/(short) position	34,081,321	(79,863,550)	(25,736,082)	14,125,569	42,340,006	36,914,111	21,861,375

Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates. The “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

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 overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(2) 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						
	Carrying amount at 30 Jun	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Due to central bank	1,091,550	1,117,119	-	-	1,117,119		
Deposits/placements from banks and other financial institutions	51,520,217	52,991,055	440,381	15,389,765	36,383,751	777,158	-
Financial assets sold under repurchase agreements	28,724,555	28,749,207	-	28,749,207	-	-	-
Deposits from customers	245,401,278	255,994,190	109,201,237	31,873,954	56,311,254	56,210,827	2,396,918
Debt securities issued	60,144,951	62,630,883	-	16,790,000	35,138,400	10,702,483	-
Total non-derivative financial liabilities	386,882,551	401,482,454	109,641,618	92,802,926	128,950,524	67,690,468	2,396,918

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(2) Analysis on contractual undiscounted cash flows of financial liabilities

	Carrying amount at 31 Dec	Total	31 December 2016				
			Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Due to central bank	77,000	78,585	-	-	78,585	-	-
Deposits/placements from banks and other financial institutions	44,913,864	45,345,725	1,170,791	13,303,788	30,093,988	777,158	-
Financial assets sold under repurchase agreements	33,251,370	33,298,280	-	33,298,280	-	-	-
Deposits from customers	216,389,640	221,986,731	96,432,137	29,198,997	52,073,946	44,281,651	-
Debt securities issued	44,660,446	46,426,344	-	10,370,000	27,612,400	8,443,944	-
Total non-derivative financial liabilities	339,292,320	347,135,665	97,602,928	86,171,065	109,858,919	53,502,753	-

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

(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 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

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

- making use of risk alert system and paying attention to risk product and early risk alert on each aspect of business; making business risk assessment in time; carrying out centralised risk management on major business controlling unit 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 centralized operational risk management tools, supervising, analysing and reporting the sufficiency and effectiveness of operational risk management;
- the Compliance Department, the Risk Management Department and the Internal Audit Office constitute “three lines of defense” for operational risk management base on the separating responsibilities of the front, middle and the back offices. The Business and functional departments act as the first line of defense, the Compliance Department and the Risk Management Department act as the second line of defense and the Internal Audit Office acts as the third line of defense;
- establishing a compulsory leave and rotation policies to staff in key position or important process;
- 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 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. The 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 needs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 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) 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		5,321,932	5,321,932
– Valid portion of capital reserve		3,000,172	3,004,786
– Surplus reserve		1,632,893	1,632,893
– General reserve		4,529,565	4,527,789
– Retained earnings		7,907,773	6,808,978
– Valid portion of minority interests		430,671	363,130
Core tier-one capital		22,823,006	21,659,508
Core tier-one capital deductions		(380,341)	(383,789)
Net core tier-one capital		22,442,665	21,275,719
Other tier one capital		57,423	37,266
Net tier-one capital		22,500,088	21,312,985
Tier two capital			
– Qualifying portions of tier-two capital instruments issued		7,000,000	5,000,000
– Surplus provision for loan impairment		1,944,678	2,079,934
– Valid portion of minority interests		114,846	70,962
Net tier-two capital		9,059,524	7,150,896
Net capital base		31,559,612	28,463,881
Total risk weighted assets	(1)	261,318,605	242,109,283
Core tier-one capital adequacy ratio		8.59%	8.79%
Tier-one capital adequacy ratio		8.61%	8.80%
Capital adequacy ratio		12.08%	11.76%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

- (1) 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.
- (2) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), 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 10.1%, 8.1% and 7.1% at 30 June 2017 and 9.7%, 7.7% and 6.7% at 31 December 2016.

39 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- | | |
|----------|--|
| Level 1: | Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date; |
| Level 2: | Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and |
| Level 3: | Fair value measured using significant unobservable inputs |

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

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

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

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

(1) Debt securities investments

Fair values of debt securities investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(2) 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 each of the reporting period.

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

Fair values of debt securities issued are based on their quoted market prices at the end of each of the reporting period, 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 each of the reporting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

(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	
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	1,945,271	8,036,511	–	9,981,782
Available-for-sale financial assets				
– debt instruments	–	5,420,367	20,834,525	26,254,892
Total	1,945,271	13,456,878	20,834,525	36,236,674

	31 December 2016			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	519,614	8,031,683	–	8,551,297
– investment funds	–	394,800	–	394,800
Available-for-sale financial assets				
– debt instruments	–	1,321,276	4,972,113	6,293,389
Total	519,614	9,747,759	4,972,113	15,239,486

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31 December 2016: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

(c) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the period:

	1 January 2017	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to Level 2 from Level 3	30 June 2017
Financial assets:								
Available-for-sale financial assets								
- Debt instruments	4,972,113	58,534	11,293	17,799,077	(1,160,541)	845,951	-	20,834,525

	1 January 2016	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to Level 2 from Level 3	30 June 2016
Financial assets:								
Available-for-sale financial assets								
- Debt instruments	4,359,941	121,807	-	4,069,785	(1,747,931)	(121,807)	-	6,681,795

During the reporting period, the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

Total gains recorded in profit or loss is recognised in the line item "interest income" on the face of the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

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

	30 June 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	55,250,098	53,580,981	18,119,723	35,461,258	–
Total	55,250,098	53,580,981	18,119,723	35,461,258	–
Financial liabilities					
Debt securities issued					
– Financial bonds	2,600,000	2,599,423	–	2,599,423	–
– Tier-two capital bonds	6,997,283	6,882,422	–	6,882,422	–
– Interbank deposits	50,547,668	49,779,309	–	49,779,309	–
Total	60,144,951	59,261,154	–	59,261,154	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

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

	31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	49,671,048	48,837,029	16,157,343	32,679,686	–
Total	49,671,048	48,837,029	16,157,343	32,679,686	–
Financial liabilities					
Debt securities issued					
– Financial bonds	2,600,000	2,617,631	–	2,617,631	–
– Tier-two capital bonds	4,997,944	4,987,689	–	4,987,689	–
– Interbank deposits	37,062,502	35,715,648	–	35,715,648	–
Total	44,660,446	43,320,968	–	43,320,968	–

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods are adopted to determine the fair values of these assets and liabilities.

The fair values of held-to-maturity investments and debt securities issued are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 FAIR VALUE (Continued)

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

Financial investments classified as loans and receivables are stated at amortised cost using the effective interest method. The fair value of financial investments classified as loans and receivables is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the financial investments classified as loans and receivables are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

The above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Cash and deposits with central bank	Due to central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with banks and other financial institutions	Placements from banks and other financial institutions
Financial assets held under resale agreements	Financial assets sold under repurchase agreements
Loans and advances to customers	Deposits from customers
Finance lease receivables	Other financial liabilities
Other financial assets	

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, unused 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 unused 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	53,770,523	58,122,706
Letters of credit	2,504,703	2,984,292
Guarantees	2,410,616	1,170,616
Unused credit card commitments	1,164,446	1,005,794
Total	59,850,288	63,283,408

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 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	17,011,104	18,879,397

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)	130,690	91,208
After one year but within five years (inclusive)	293,323	244,262
After five years	176,651	165,679
Total	600,664	501,149

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

40 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	275,299	267,792
Approved but not contracted for	30,000	72,643
Total	305,299	340,435

(e) Outstanding litigations and disputes

As at 30 June 2017 and 31 December 2016, there are no significant legal proceedings outstanding against the Group.

(f) Pledged assets

	30 June 2017	31 December 2016
Discounted bills	34,334	–
Debt securities	27,697,736	32,934,901
Total	27,732,070	32,934,901

Some of the Group's assets are pledged as collateral under repurchase agreements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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	
	Carrying amount	Maximum exposure
Financial investments		
– Available-for-sale financial assets	20,834,525	20,834,525
– Financial investment classified as loans and receivables	76,792,987	76,792,987
Interest receivables	612,272	612,272
Total	98,239,784	98,239,784

**NOTES TO THE UNAUDITED INTERIM
FINANCIAL REPORT (Continued)**
(Expressed in thousands of Renminbi, unless otherwise stated)

41 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	
	Carrying amount	Maximum exposure
Financial investments		
– Financial assets at fair value through profit or loss	394,800	394,800
– Available-for-sale financial assets	4,972,113	4,972,113
– Financial investment classified as loans and receivables	105,249,436	105,249,436
Interest receivables	456,494	456,494
Total	111,072,843	111,072,843

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amount of the assets held by the Group and the related interest receivable at the end of each of the reporting period.

The interest income arising from the above unconsolidated structured entities for the period ended 30 June 2017 amounted to RMB2,879 million (the six months ended 30 June 2016: RMB2,466 million).

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unstructured 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in (Continued)

As at 30 June 2017, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB37,396 million (31 December 2016: RMB43,209 million).

During the six months ended 30 June 2017, the amount of fee and commission income received from the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding period is RMB4 million (the six months ended 30 June 2016: RMB2 million).

During the six months ended 30 June 2017, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding period is RMB4,800 million (the six months ended 30 June 2016: RMB1,649 million).

42 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 RMB10,471 million (31 December 2016: RMB7,423 million).

43 SUBSEQUENT EVENTS

The Group has no material events for disclosure subsequent to the date of this report.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated interim financial report, and is included herein for information purpose only.

1 LIQUIDITY COVERAGE RATIOS AND LEVERAGE RATIO

	30 June 2017	Average for the period ended 30 June 2017
Liquidity coverage ratio (RMB and foreign currency)	353.07%	301.81%

	31 December 2016	Average for the year ended 31 December 2016
Liquidity coverage ratio (RMB and foreign currency)	256.91%	275.82%

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 70%, 80% and 90% by the end of 2015, 2016 and 2017, respectively.

	30 June 2017	31 December 2016
Leverage ratio	4.82%	5.15%

Pursuant to the Leverage Ratio Management of Commercial Banks 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 are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	30 June 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	18,629,696	438,802	6,524	19,075,022
Spot liabilities	(16,386,966)	(407)	–	(16,387,373)
Net position	2,242,730	438,395	6,524	2,687,649

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	14,868,213	450,013	7,076	15,325,302
Spot liabilities	(12,602,143)	(338)	–	(12,602,481)
Net position	2,266,070	449,675	7,076	2,722,821

The Group has no structural position at the reporting periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks and amounts due from banks and other financial institutions.

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.

	30 June 2017			Total
	Banks and Other financial institutions	Public sector entities	Others	
North and South America	13,184	–	–	13,184
Asia Pacific excluding mainland China	2,589,781	–	271,381	2,861,162
Europe	5,546	–	–	5,546
	2,608,511	–	271,381	2,879,892

	31 December 2016			Total
	Banks and other financial institutions	Public sector entities	Others	
North and South America	451,927	–	300,502	752,429
Asia Pacific excluding mainland China	91,634	–	–	91,634
Europe	6,480	–	–	6,480
	550,041	–	300,502	850,543

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	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)	890,002	831,657
– between 6 months and 1 year (inclusive)	655,634	704,478
– over 1 year	912,417	349,051
Total	2,458,053	1,885,186
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.73%	0.75%
– between 6 months and 1 year (inclusive)	0.54%	0.63%
– over 1 year	0.75%	0.31%
Total	2.02%	1.69%

DEFINITIONS

In this interim report, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“A Share(s)”	ordinary share(s) to be issued by the Bank pursuant to the A Share Offering and subscribed for in RMB
“A Share Offering”	the Bank’s initial public offering of not more than 600,000,000 A Shares, which will be listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange
“Bank”, “Bank of Zhengzhou”, or “We”	Bank of Zhengzhou Co., Ltd*. (鄭州銀行股份有限公司*), a joint stock company incorporated in the PRC with limited liability on November 16, 1996 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 Henan Bureau”	China Banking Regulatory Commission Henan Bureau
“CIRC”	China Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Bank
“Domestic Share(s)”	ordinary Share(s) issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi

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

DEFINITIONS (Continued)

“H Share(s)”	overseas-listed Share(s) in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed and traded 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
“Jiuding Financial Leasing Company”	Henan Jiuding Financial Leasing Co., Ltd. (河南九鼎金融租賃股份有限公司)
“Latest Practicable Date”	August 25, 2017, being the latest practicable date prior to the printing of this interim report for the purpose of ascertaining certain information contained in this interim report
“Listing Rules”	the Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Offshore Preference Shares”	the preference shares of an aggregate amount of not more than RMB8 billion or its equivalent, proposed to be issued by the Bank in the offshore market pursuant to the plan passed by the Shareholders on May 19, 2017
“PBoC” or “Central Bank”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China, and for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan

DEFINITIONS (Continued)

“Reporting Period”	six months ended for the period from January 1, 2017 to June 30, 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
“Supervisor(s)”	the supervisor(s) of the Bank
“2016 AGM”	the annual general meeting of the Bank convened on May 19, 2017



郑州银行
BANK OF ZHENGZHOU