



# 徽商銀行股份有限公司 Huishang Bank Corporation Limited

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

STOCK CODE: 3698



INTERIM REPORT 2017

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## Definitions

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

“Bank” or “Huishang Bank”	Huishang Bank Corporation Limited, including its subsidiaries, branches and sub-branches
“CBRC”	the China Banking Regulatory Commission
“CBRC Anhui Office”	the China Banking Regulatory Commission Anhui Office
“CSRC”	the China Securities Regulatory Commission
“Domestic Shares”	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
“H Shares”	ordinary shares issued by the Bank to overseas investors which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share Listing”	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
“H Share Listing Date”	the date on which dealings in H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Latest Practicable Date”	the latest practicable date for the purpose of ascertaining certain information contained in this report, i.e. 25 August 2017
“Non-green Industries”	the heavily-polluting, highly energy-consuming and over-capacity industries
“PBOC”	the People’s Bank of China
“Offshore Preference Shares”	44,400,000 non-cumulative perpetual offshore preference shares with a nominal value of RMB100 per share issued by the Bank and listed on the Hong Kong Stock Exchange
“Reporting Period”	the first half of 2017 (1 January 2017 to 30 June 2017)
“Three Dimensional Rural Issues”	abbreviation for issues relating to agriculture, rural areas and farmers
“US\$” or “U.S. dollars”	U.S. dollars, the lawful currency of the United States
“Yuan” or “RMB”	Renminbi, the lawful currency of China. Unless otherwise specifies herein, the currency used in this report shall be Renminbi

## Chapter I Corporate Information

### 1.1 CORPORATE INFORMATION

- 1.1.1 Statutory Chinese name: 徽商銀行股份有限公司<sup>1</sup>  
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Li Hongming  
Authorized representatives: Wu Xuemin, Ngai Wai Fung  
Secretary to the Board of Directors: Yi Feng  
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC  
Tel: +86-551-62667787  
Fax: +86-551-62667787  
Post code: 230001  
Bank's website: www.hsbank.com.cn  
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP  
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dong Cheng District, Beijing, the PRC  
International auditor: Ernst & Young  
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices  
Legal advisor as to Hong Kong law: Latham & Watkins
- 1.1.8 Domestic Shares trustee agency: China Securities Depository and Clearing Corporation Limited  
H Shares registrar: Computershare Hong Kong Investor Services Limited

*Note: 1. Huishang Bank Corporation Limited 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/deposit-taking business in Hong Kong.*

## Chapter I Corporate Information

### 1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, the Bank underwent H Share Listing (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 approved by the CBRC Anhui Office and a corporate legal entity business license numbered 340000000026144 approved by the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As of 30 June 2017, the registered capital of Huishang Bank was RMB11,049,819,283. The Bank successfully issued Offshore Preference Shares with a total amount of US\$888 million in November 2016 and was listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal business scope in the PRC covers the taking of deposits from corporates and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompasses money market business, investment and trading business and transactions on behalf of customers. As of 30 June 2017, the Bank had 9,089 on-the-job employees. Apart from its headquarters, the Bank has 419 branches and sub-branches (including 17 branches and 402 sub-branches). The Bank has three subsidiaries, namely Huiyin Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interests in Chery Huiyin Motor Finance Service Co., Ltd..



## Chapter II Summary of Accounting Data and Business Data\*

### 2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

	January to June 2017	January to June 2016	Changes over the corresponding period of last year +/(-)%
<b>Operational results</b>			
Net operating income <sup>(1)</sup>	10,815	10,167	6.37
Profit before tax	4,864	4,363	11.48
Net profit attributable to shareholders of the Bank	3,780	3,408	10.92

Unit: RMB, except for percentages

	January to June 2017	January to June 2016	Changes over the corresponding period of last year +/(-)%
<b>Per ordinary share</b>			
Basic earnings attributable to shareholders of the Bank	0.34	0.31	9.68
Diluted earnings attributable to shareholders of the Bank	0.34	0.31	9.68
Net assets attributable to shareholders of the Bank as at the end of the period	4.40	3.87	13.70

Unit: RMB million, except for percentages

	30 June 2017	31 December 2016	Changes over the end of last year +/(-)%
<b>Scale indicators</b>			
Total assets	812,678	754,774	7.67
Including: Total loans and advances	295,915	277,371	6.69
Total liabilities	756,587	701,591	7.84
Including: Total customer deposits	511,080	462,014	10.62
Equity attributable to shareholders of the Bank	54,659	51,871	5.37

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

\* Interim financial data of the Bank have not been audited.

## Chapter II Summary of Accounting Data and Business Data\*

### 2.2 FINANCIAL RATIOS

	January to June 2017	January to December 2016	January to June 2016	Unit: % Changes over the corresponding period of last year + / (-)
<b>Profitability indicators<sup>(1)</sup></b>				
Return on average assets	1.00	1.01	1.04	(0.04)
Return on average equity of shareholders	16.04	15.63	15.96	0.08
Net interest spread	2.18	2.42	2.51	(0.33)
Net interest margin	2.32	2.59	2.69	(0.37)

#### Proportion of net operating income

– Net interest income	88.54	87.68	87.58	0.96
– Net non-interest income <sup>(2)</sup>	11.46	12.32	12.42	(0.96)
Cost-to-income ratio (including business tax and surcharges) <sup>(3)</sup>	23.51	27.55	27.14	(3.63)

	30 June 2017	31 December 2016	30 June 2016	Unit: % Changes over the corresponding period of last year + / (-)
<b>Asset quality indicators</b>				
Non-performing loan ratio	1.06	1.07	1.02	0.04
Allowance to non-performing loan ratio	273.21	270.77	267.50	5.71
Allowance to loans ratio	2.90	2.90	2.73	0.17

#### Capital adequacy indicators

Core tier I capital adequacy ratio	8.62	8.79	8.89	(0.27)
Capital adequacy ratio	12.42	12.99	11.97	0.45
Total equity to total assets <sup>(4)</sup>	6.90	7.05	6.33	0.57

Note: (1) The ratios are annualized.

(2) Net non-interest income in this indicator comprises of net fees and commission income, net trading income, net income from investments in securities, as well as other net operating income, excluding net income from investments in associates and joint ventures.

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

(4) Equity includes minority interests.

## Chapter III Management Discussion and Analysis

### 3.1 OVERALL BUSINESS REVIEW

In the face of the complex external situations and increasingly fierce peer competition during the first half of 2017, the Bank stuck to the idea of “development driven by innovation and management improvement”, carefully established the service brand of “comprehensive finance, inclusive finance, intelligent finance and safe finance”, and accelerated the promotion of the four structural adjustments of lightening assets, balancing liabilities, diversifying customers and broadening income sources. As such, the Bank managed to realize steady growth in various business segments and continuous improvement at operating and management levels.

The scale of assets and liabilities increased moderately. As of the end of June 2017, the total assets of the Bank were RMB812,678 million, representing an increase of RMB57,904 million or 7.67% as compared with the end of last year. Total loans and advances were RMB295,915 million, representing an increase of RMB18,544 million or 6.69% as compared with the end of last year. Total customer deposits were RMB511,080 million, representing an increase of RMB49,066 million or 10.62% as compared with the end of last year.

Non-performing loans increased and provision coverage ratio maintained at a stable level. As of the end of June 2017, the Bank’s non-performing loan balance was RMB3,143 million, representing an increase of RMB176 million as compared with the end of last year. Non-performing loan ratio was 1.06%, representing a decrease of 0.01 percentage point as compared with the end of last year. Allowance to non-performing loan ratio was 273.21%, representing an increase of 2.44 percentage points as compared with the end of last year.

### 3.2 ANALYSIS OF INCOME STATEMENT

#### 3.2.1 Particulars of financial performance

	January to June 2017	January to June 2016
	<i>Unit: RMB million</i>	
Net interest income	<b>9,575</b>	8,904
Net fee and commission income	<b>1,470</b>	1,258
Other net income	<b>(231)</b>	4
Operating expenses	<b>2,543</b>	2,759
Provision for insurance claims	–	–
Share of profits in associates	<b>75</b>	81
Share of profits of joint ventures	–	–
Impairment losses on assets	<b>3,482</b>	3,125
Profit before income tax	<b>4,864</b>	4,363
Income tax	<b>963</b>	918
Net profit	<b>3,901</b>	3,445
Net profit attributable to shareholders of the Bank	<b>3,780</b>	3,408

From January to June 2017, the Bank realized a profit before income tax of RMB4,864 million, representing an increase of 11.48% as compared with the same period of last year. The effective income tax rate was 19.80%, representing a decrease of 1.24 percentage points as compared with the same period of last year.



## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.2 Net operating income

From January to June 2017, the Bank had a net operating income of RMB10,890 million (including income from investments in associates and joint ventures), representing an increase of 6.28% as compared with the same period of last year, among which, net interest income accounted for 87.92%, representing an increase of 1.03 percentage points as compared with the same period of last year; net non-interest income accounted for 12.08%, representing a decrease of 1.03 percentage points as compared with the same period of last year.

	January to June 2017 (%)	January to December 2016 (%)	January to June 2016 (%)
Net interest income	<b>87.92</b>	87.08	86.89
Net fee and commission income	<b>13.50</b>	11.83	12.27
Other net income	<b>(2.11)</b>	0.41	0.05
Income from investment in associates and joint ventures	<b>0.69</b>	0.68	0.79
<b>Total</b>	<b>100.00</b>	100.00	100.00

Note: Such analysis of net operating income comprises income from investments in associates and joint ventures; and other net income includes net profit or loss on trading, net income from investments in securities and other net operating income.

#### 3.2.3 Net interest income

From January to June 2017, the Bank's net interest income amounted to RMB9,575 million, representing an increase of 7.54% as compared with the same period of last year. Such increase was mainly due to an expansion of the scale of interest-earning assets.

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

*Unit: RMB million, except for percentages*

	January to June 2017			January to December 2016			January to June 2016		
	Average Balance	Interest Income	Annualized Average Yield (%)	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Annualized Average Yield (%)
<b>Interest-earning assets</b>									
Loans and advances	290,502	6,897	4.75	261,084	13,704	5.25	245,183	6,790	5.54
Securities investments	398,178	9,523	4.78	309,294	15,479	5.00	282,754	7,428	5.25
Cash and balances with the central bank	78,552	598	1.52	69,685	1,078	1.55	63,673	489	1.54
Deposits and placements with banks and other financial institutions	36,223	424	2.34	52,375	1,670	3.19	63,168	936	2.96
Financial leasing	21,029	675	6.42	14,810	771	5.21	7,895	322	8.16
<b>Total interest-earning assets and interest income</b>	<b>824,484</b>	<b>18,117</b>	<b>4.39</b>	<b>707,248</b>	<b>32,702</b>	<b>4.63</b>	<b>662,673</b>	<b>15,965</b>	<b>4.82</b>

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.3 Net interest income (Continued)

*Unit: RMB million, except for percentages*

	January to June 2017			January to December 2016			January to June 2016		
	Average Balance	Interest Expenses	Annualized	Average Balance	Interest Expenses	Average	Average Balance	Interest Expenses	Annualized
			Cost Ratio (%)			Cost Ratio (%)			Cost Ratio (%)
<b>Interest-bearing liabilities</b>									
Borrowings from the central bank	3.33	0.035	2.10	3	-	1.70 <sup>(1)</sup>	-	-	-
Customer deposits	516,352	3,803	1.47	420,170	6,688	1.59	376,074	3,042	1.62
Deposits and placements from banks and other financial institutions	152,192	2,734	3.59	138,678	4,375	3.15	144,297	2,350	3.26
Debt securities issued	104,130	2,005	3.85	92,192	3,299	3.58	92,437	1,669	3.61
<b>Total interest-bearing liabilities and interest expenses</b>	<b>772,678</b>	<b>8,542</b>	<b>2.21</b>	<b>651,043</b>	<b>14,362</b>	<b>2.21</b>	<b>612,808</b>	<b>7,061</b>	<b>2.30</b>
<b>Net interest income</b>	/	<b>9,575</b>	/	/	<b>18,340</b>	/	/	<b>8,904</b>	/
<b>Net interest spread</b>	/	/	<b>2.18</b>	/	/	<b>2.42</b>	/	/	<b>2.51</b>
<b>Net interest margin</b>	/	/	<b>2.32</b>	/	/	<b>2.59</b>	/	/	<b>2.69</b>

Note: (1) Interest expenses of borrowings from the central bank were small and the corresponding cost ratio was calculated in thousands.

The annualized average yield of interest-earning assets was 4.39%, while the annualized average cost ratio of interest-bearing liabilities was 2.21%.

From January to June 2017, the net interest spread of the Bank was 2.18%, representing a decrease of 0.33 percentage point as compared with the same period of last year. From January to June 2017, the net interest margin of the Bank was 2.32%, representing a decrease of 0.37 percentage point as compared with the same period of last year.

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which were included in the impact of interest rate changes on changes to the amount of interest income and expenses.

*Unit: RMB million*

	January to June 2017		
	vs.		
	January to June 2016		
	Increase (decrease) factors		Net increase
	Scale	Interest rate	(decrease)
<b>Assets</b>			
Loans and advances	1,255	(1,148)	107
Securities investments	3,032	(937)	2,095
Balances with central bank	114	(5)	109
Deposits and placements with banks and other financial institutions	(399)	(113)	(512)
Financial leasing	536	(183)	353
<b>Changes in interest income</b>	<b>4,538</b>	<b>(2,386)</b>	<b>2,152</b>
<b>Liabilities</b>			
Borrowings from the central bank	–	0	0
Customer deposits	1,135	(374)	761
Deposits and placements from banks and other financial institutions	129	255	384
Debt securities issued	211	125	336
<b>Changes in interest expenses</b>	<b>1,475</b>	<b>6</b>	<b>1,481</b>
<b>Changes in net interest income</b>	<b>3,064</b>	<b>(2,393)</b>	<b>671</b>

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.4 Interest income

From January to June 2017, the Bank recorded an interest income of RMB18,117 million, representing an increase of 13.49% as compared with the same period of last year, which was mainly due to the expansion in the scale of interest-earning assets, especially the rapid growth in the scale of securities investments. From January to June 2017, the interest income from securities investments was RMB9,523 million, representing an increase of RMB2,095 million or 28.20% as compared with the same period of last year. From January to June 2017, the interest income from loans and advances of the Bank was RMB6,897 million, representing an increase of RMB108 million or 1.59% as compared with the same period of last year.

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

*Unit: RMB million, except for percentages*

	January to June 2017			January to June 2016		
	Average Balance	Interest Income	Annualized Average Yields (%)	Average Balance	Interest Income	Annualized Average Yields (%)
Corporate loans	207,798	5,135	4.94	169,862	4,713	5.55
Retail loans	59,698	1,336	4.48	48,700	1,587	6.52
Discounted bills	23,006	426	3.70	26,621	489	3.67
<b>Loans and advances</b>	<b>290,502</b>	<b>6,897</b>	<b>4.75</b>	<b>245,183</b>	<b>6,789</b>	<b>5.54</b>

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.5 Interest expenses

From January to June 2017, the interest expense of the Bank was RMB8,542 million, representing an increase of RMB1,481 million or 20.97% as compared with the same period of last year, which was primarily attributable to an increase in the scale of interest-bearing liabilities.

#### *Interest expense on customer deposits*

From January to June 2017, the Bank's interest expense on customer deposits was RMB3,803 million, representing an increase of RMB761 million or 25.02% as compared with the same period of last year.

The following table sets forth the average balances, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail deposits for the periods indicated:

*Unit: RMB million, except percentages*

	January to June 2017			January to June 2016		
	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	212,587	710	0.67	157,856	477	0.60
Time deposits	161,991	2,001	2.47	101,187	1,609	3.18
<b>Sub-total</b>	<b>374,578</b>	<b>2,711</b>	<b>1.45</b>	259,043	2,086	1.61
Retail deposits						
Demand deposits	48,883	106	0.43	38,791	77	0.40
Time deposits	70,047	887	2.53	49,865	691	2.77
<b>Sub-total</b>	<b>118,930</b>	<b>993</b>	<b>1.67</b>	88,656	768	1.73
Others	22,844	99	0.86	28,375	188	1.33
<b>Total customer deposits</b>	<b>516,352</b>	<b>3,803</b>	<b>1.47</b>	376,074	3,042	1.62

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.6 Net non-interest income

From January to June 2017, the Bank realized a net non-interest income of RMB1,315 million, representing a decrease of RMB29 million or 2.16% as compared with the same period of last year, which was primarily attributable to the decrease in other net non-interest income.

The table below sets out the main components of net non-interest income of the Bank for the periods indicated:

	<i>Unit: RMB million</i>	
	<b>January to June 2017</b>	January to June 2016
<b>Fee and commission income</b>	<b>1,563</b>	1,312
Less: Fee and commission expenses	<b>93</b>	54
<b>Net fee and commission income</b>	<b>1,470</b>	1,258
<b>Other net non-interest income<sup>(1)</sup></b>	<b>(155)</b>	86
<b>Total net non-interest income</b>	<b>1,315</b>	1,344

Note: (1) Comprises net trading income, net income from securities investments, other net operating income and net income from investments in associates.

#### 3.2.7 Net fee and commission income

From January to June 2017, the net fee and commission income of the Bank was RMB1,470 million, representing an increase of RMB212 million or 16.85% as compared with the same period of last year, which was primarily attributable to an increase in income from custodian and other fiduciary service commissions, bank card fees, agency service fees and settlement and clearing fees.

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

	<i>Unit: RMB million</i>	
	<b>January to June 2017</b>	January to June 2016
<b>Fee and commission income</b>	<b>1,563</b>	1,312
Bank card fees	<b>259</b>	241
Settlement and clearing fees	<b>99</b>	77
Agency service fees	<b>124</b>	73
Consultancy and advisory fees	<b>66</b>	90
Guarantee and commitment fees	<b>14</b>	4
Custodian and other fiduciary service commissions	<b>894</b>	732
Others <sup>(1)</sup>	<b>107</b>	95
<b>Fee and commission expenses</b>	<b>(93)</b>	(54)
<b>Net fee and commission income</b>	<b>1,470</b>	1,258

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



## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.8 Other net non-interest income

From January to June 2017, the Bank realized other net non-interest income of RMB-155 million, representing a decrease of RMB241 million, or 280.23% as compared with the same period of last year, which was mainly due to a decrease in net income from securities investments, other net operating income and net trading income.

The following table sets forth the principal components of the Bank's other net income for the periods indicated:

	<i>Unit: RMB million</i>	
	<b>January to June 2017</b>	January to June 2016
Net income from securities investments	(40)	(17)
Net trading income	(121)	(12)
Net income from investment in associates	75	81
Other net operating income	(69)	34
<b>Total other net income</b>	<b>(155)</b>	<b>86</b>

#### 3.2.9 Operating expenses

From January to June 2017, operating expenses of the Bank were RMB2,543 million, representing a decrease of 7.83% as compared with the same period of last year.

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

	<i>Unit: RMB million</i>	
	<b>January to June 2017</b>	January to June 2016
Staff costs	1,571	1,344
Business tax and surcharges	73	608
Depreciations and amortization	213	182
Lease expenses	153	126
Other general and administrative expenses	533	499
<b>Total operating expenses</b>	<b>2,543</b>	<b>2,759</b>

## Chapter III Management Discussion and Analysis

### 3.2 ANALYSIS OF INCOME STATEMENT (Continued)

#### 3.2.10 Asset impairment losses

In the first half of 2017, the Bank's allowance to asset impairment losses was RMB3,482 million, representing an increase of 11.42% as compared with the same period of last year.

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	30 June 2016
Loans and advances to customers		
– collectively-assessed	<b>(1,765)</b>	(1,778)
– individually-assessed	<b>(629)</b>	(358)
Available-for-sale financial assets	<b>563</b>	(115)
Investments classified as receivables	<b>(1,458)</b>	(750)
Finance lease receivables	<b>(113)</b>	(124)
Other receivables	<b>(80)</b>	–
<b>Total</b>	<b>(3,482)</b>	(3,125)

### 3.3 BALANCE SHEET ANALYSIS

#### 3.3.1 Assets

As of 30 June 2017, the Bank's total assets amounted to RMB812,678 million, representing an increase of 7.67% as compared with the end of 2016. The increase in total assets was primarily due to an increase in investments as well as assets such as loans and advances.

<b>Items</b>	<b>30 June 2017</b>		<i>Unit: RMB million, except for percentages</i> 31 December 2016	
	<b>Amount</b>	<b>% of the total</b>	Amount	% of the total
Total loans and advances	<b>295,915</b>	<b>36.42%</b>	277,371	36.75%
Provision for loan impairment	<b>(8,588)</b>	<b>(1.06)%</b>	(8,035)	(1.06)%
Net loans and advances	<b>287,327</b>	<b>35.36%</b>	269,336	35.69%
Investments	<b>381,222</b>	<b>46.91%</b>	338,149	44.79%
Cash	<b>1,308</b>	<b>0.16%</b>	1,353	0.18%
Balances with central bank	<b>84,176</b>	<b>10.36%</b>	86,706	11.49%
Deposits with banks and other financial institutions	<b>10,116</b>	<b>1.24%</b>	10,961	1.45%
Inter-bank loans and financial assets held under resale agreements	<b>12,023</b>	<b>1.48%</b>	19,836	2.63%
Fixed assets	<b>1,705</b>	<b>0.21%</b>	1,719	0.23%
Deferred income tax assets	<b>3,119</b>	<b>0.38%</b>	2,309	0.31%
Finance lease receivables	<b>22,856</b>	<b>2.81%</b>	18,199	2.41%
Other assets	<b>8,826</b>	<b>1.09%</b>	6,206	0.82%
<b>Total assets</b>	<b>812,678</b>	<b>100.00%</b>	754,774	100.00%

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.1 Assets (Continued)

##### 3.3.1.1 Loans and advances

As of 30 June 2017, the Bank's total loans and advances amounted to RMB295,915 million, representing an increase of 6.69% as compared with the end of last year, and the total loans and advances accounted for 36.42% of the Bank's total assets, down 0.33 percentage point from the end of last year.

##### *Distribution of loans by product types*

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

*Unit: RMB million, except for percentages*

Items	30 June 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Corporate loans	185,814	62.79%	179,202	64.61%
Discounted bills	13,505	4.56%	16,761	6.04%
Retail loans	96,596	32.65%	81,408	29.35%
Total loans and advances	295,915	100.00%	277,371	100.00%

##### *Corporate loans*

As of 30 June 2017, the Bank's total corporate loans amounted to RMB185,814 million, representing an increase of 3.69% as compared with the end of last year, and accounted for 62.79% of the total loans and advances of the Bank, representing a decrease of 1.82 percentage points from the end of last year. During the first half of 2017, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted its total loan amount, thoroughly adjusted its loan structure, and systemically prevented various risks, achieving simultaneous optimization of corporate loan structure and risk return.

##### *Discounted bills*

As of 30 June 2017, the Bank's total discounted bills amounted to RMB13,505 million, representing a decrease of 19.43% as compared with the end of last year. Since this year, according to the regulatory requirements and changes in the bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after considering credit size, market yield, liquidity management and various risks as a whole.

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.1 Assets (Continued)

##### 3.3.1.1 Loans and advances (Continued)

###### Retail loans

As of 30 June 2017, the Bank's total retail loans amounted to RMB96,596 million, representing an increase of 18.66% as compared with the end of last year, and accounted for 32.65% of total loans and advances, representing an increase of 3.30 percentage points from the end of last year.

*Unit: RMB million, except for percentages*

Items	30 June 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	73,259	75.85%	60,672	74.53%
Personal business revolving loans	7,404	7.66%	8,690	10.67%
Others	15,933	16.49%	12,046	14.80%
Total retail loans	96,596	100.00%	81,408	100.00%

##### 3.3.1.2 Investments

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

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

*Unit: RMB million, except for percentages*

Items	30 June 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Financial assets held for trading	8,501	2.23%	5,742	1.70%
Derivative financial assets	41	0.01%	386	0.11%
Available-for-sale financial assets	124,563	32.67%	120,384	35.56%
Held-to-maturity financial assets	55,703	14.61%	52,352	15.46%
Financial assets classified as receivables	192,456	50.48%	159,671	47.17%
Investments	381,264	100.00%	338,535	100.00%

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.1 Assets (Continued)

##### 3.3.1.2 Investments (Continued)

###### *Financial assets held for trading*

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

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	31 December 2016
Chinese government	<b>276</b>	151
Financial institutions	<b>879</b>	1,186
Corporate	<b>1,459</b>	1,913
Interbank certificates of deposits	<b>5,887</b>	2,492
<b>Total financial assets held for trading</b>	<b>8,501</b>	5,742

The Bank mainly took the opportunity in the first half of 2017 to increase the holding of interbank certificates of deposits with shorter duration and higher yield.

###### *Available-for-sale investments*

As of 30 June 2017, the balance of the Bank's available-for-sale investments increased by 3.47% from the end of 2016 to RMB124,563 million. In the first half of 2017, the domestic economy showed a steady trend with modest inflationary pressures. The PBOC raised the market interest rate twice in the first half of this year to lead the overall interest rate of the currency market to move upward. At the same time, this year's financial deleveraging was carried out gradually. Affected by the above factors, the yield of bond market showed an upward trend in general. In response to the market situation, the Bank actively grasped the market opportunities to increase the holding of credit bonds with higher yield, and constantly optimized the investment portfolio structure.

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

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	31 December 2016
Chinese government bonds	<b>14,443</b>	16,896
Financial bonds	<b>12,096</b>	11,302
Corporate bonds	<b>7,757</b>	4,350
Asset management and trust scheme	<b>69,032</b>	60,614
Purchase non-principal-guaranteed wealth management products issued by other banks	<b>8,950</b>	13,500
Inter-bank certificates of deposits	<b>12,604</b>	14,605
Equity securities	<b>10</b>	10
<b>Total available-for-sale investments</b>	<b>124,892</b>	121,277
Provision for impairment	<b>(329)</b>	(893)
<b>Net available-for-sale investments</b>	<b>124,563</b>	120,384

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.1 Assets (Continued)

##### 3.3.1.2 Investments (Continued)

###### *Held-to-maturity investments*

As of 30 June 2017, the balance of held-to-maturity investments held by the Bank increased by RMB3,351 million or 6.40% as compared with the end of last year. Held-to-maturity investments will be held in the long run as our strategic investments.

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	31 December 2016
Chinese government bonds	<b>43,537</b>	39,199
Financial bonds	<b>7,649</b>	9,044
Corporate bonds	<b>4,517</b>	4,109
Interbank certificates of deposits	–	–
<b>Total held-to-maturity investments</b>	<b>55,703</b>	52,352

###### *Loans and investments classified as receivables*

Loans and investments classified as receivables consist of the Bank's investment in wealth management products, asset management schemes by securities firms and trust companies, and certificates of Chinese government bonds. There is no open domestic market for these investments.

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	31 December 2016
Government bonds	<b>118</b>	106
Wealth management products	<b>6,500</b>	6,000
Asset management schemes by securities firms and trust companies	<b>188,907</b>	155,177
<b>Total loans and investments classified as receivables</b>	<b>195,525</b>	161,283
Provision for impairment	<b>(3,069)</b>	(1,612)
<b>Net loans and investments classified as receivables</b>	<b>192,456</b>	159,671



## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.1 Assets (Continued)

##### 3.3.1.2 Investments (Continued)

Carrying value and market value

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

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

Unit: RMB million

	30 June 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity investments	55,703	54,449	52,352	52,695
Loans and investments classified as receivables	192,456	190,451	159,671	159,656

##### 3.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial investment amount (RMB'000)	Percentage of shareholdings (%)	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
Jinzhai Huiyin Rural Bank Co., Ltd. <sup>(1)</sup>	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. <sup>(2)</sup>	40,000	40	40,000	69,513	Promotion	Subsidiary
Huiyin Financial Leasing Co., Ltd.	1,020,000	51	1,020,000	1,020,000	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	200,000	604,699	Promotion	Company in which the Bank has shareholdings

Notes:

- (1) Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. during the Reporting Period, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Huai'an (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting for material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd..
- (2) Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 3.9.6 "Business of subsidiaries and major companies in which the Bank has shareholdings" of this interim report.

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.2 Liabilities

As of 30 June 2017, the total liabilities of the Bank amounted to RMB756,587 million, representing an increase of 7.84% as compared with the end of last year, which was mainly due to steady growth of customer deposits and issuance of bonds.

*Unit: RMB million, except for percentages*

Items	30 June 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Loans from the central bank	–	–	5	–
Deposits from banks and other financial institutions	76,623	10.13%	83,217	11.86%
Placements from banks and other financial institutions	20,425	2.70%	15,352	2.19%
Derivative financial liabilities	132	0.02%	5	–
Financial assets sold under repurchase agreements	27,503	3.64%	32,619	4.65%
Customer deposits	511,080	67.55%	462,014	65.85%
Taxes payable	1,302	0.17%	1,559	0.22%
Issuance of bonds	98,092	12.96%	91,505	13.05%
Other liabilities	21,430	2.83%	15,315	2.18%
<b>Total liabilities</b>	<b>756,587</b>	<b>100.00%</b>	<b>701,591</b>	<b>100.00%</b>

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.2 Liabilities (Continued)

##### Customer deposits

The Bank has always been focusing on actively expanding its deposit business. In 2017, despite increasingly intense competition among its peers, the Bank managed to maintain a steady growth in its customer deposits through various forceful measures. As of 30 June 2017, the Bank's total customer deposits amounted to RMB511,080 million, representing an increase of 10.62% from the end of 2016, and accounted for 67.55% of the total liabilities of the Bank.

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

*Unit: RMB million, except for percentages*

Items	30 June 2017		31 December 2016	
	Balance	% of the total	Balance	% of the total
<b>Corporate deposits</b>				
Demand deposits	231,351	45.27%	191,067	41.35%
Time deposits	132,550	25.93%	141,820	30.70%
<b>Subtotal</b>	<b>363,901</b>	<b>71.20%</b>	<b>332,887</b>	<b>72.05%</b>
<b>Retail deposits</b>				
Demand deposits	51,376	10.05%	43,420	9.40%
Time deposits	74,506	14.58%	62,112	13.44%
<b>Subtotal</b>	<b>125,882</b>	<b>24.63%</b>	<b>105,532</b>	<b>22.84%</b>
Other deposits	21,297	4.17%	23,595	5.11%
Include: Pledged deposits	20,628	4.04%	23,117	5.00%
<b>Total customer deposits</b>	<b>511,080</b>	<b>100.00%</b>	<b>462,014</b>	<b>100.00%</b>

As of 30 June 2017, corporate deposits of the Bank accounted for 71.20% of total customer deposits, representing a decrease of 0.85 percentage point from the end of 2016.

The Bank's time deposits from customers to total deposits ratio has remained steady since 2017. As of 30 June 2017, the Bank's demand deposits to total customer deposits ratio was 55.32%, representing an increase of 4.57 percentage points from the end of 2016. Among them, corporate demand deposits accounted for 45.27% of the corporate deposits, representing an increase of 3.92 percentage points from the end of 2016; while retail demand deposits accounted for 10.05% of the retail deposits, representing an increase of 0.65 percentage point from the end of 2016.

## Chapter III Management Discussion and Analysis

### 3.3 BALANCE SHEET ANALYSIS (Continued)

#### 3.3.3 Equity

Items	Unit: RMB million	
	30 June 2017	31 December 2016
Share capital	11,050	11,050
Other equity instruments	5,990	5,990
Capital reserve	6,751	6,751
Surplus reserve	7,211	6,536
General risk reserve	7,722	6,208
Investment revaluation reserve	(439)	(121)
Retained earnings	16,374	15,457
Total equity attributable to shareholders of the Bank	54,659	51,871
Non-controlling interest	1,433	1,312
Total equity	56,092	53,183

### 3.4 LOAN QUALITY ANALYSIS

#### 3.4.1 Distribution of loans by the five-category classification

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

Items	30 June 2017		31 December 2016	
	Amount	% of the total	Amount	% of the total
Pass	2,872.16	97.06	2,689.66	96.97
Special mention	55.56	1.88	54.38	1.96
Substandard	19.80	0.67	21.34	0.77
Doubtful	9.71	0.33	6.02	0.22
Loss	1.92	0.06	2.31	0.08
Gross loans and advances to customers	2,959.15	100.00	2,773.71	100.00
Total non-performing loans	31.43	1.06	29.67	1.07

Under the five-category classification system of loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. In 2017, affected by changes of the external business environment, the Bank's asset quality faced serious challenges. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained a stable quality of assets. As of the end of the Reporting Period, the NPL ratio of the Bank was 1.06%, representing a decrease of 0.01 percentage point as compared to the end of 2016.

## Chapter III Management Discussion and Analysis

### 3.4 LOAN QUALITY ANALYSIS (Continued)

#### 3.4.2 Distribution of loans and NPLs by product type

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

*Unit: RMB100 million, except for percentages*

	30 June 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
Corporate loans	1,858.14	62.79	24.65	1.33	1,792.02	64.61	22.70	1.27
Discounted bills <sup>(1)</sup>	135.05	4.56	–	–	167.61	6.04	–	–
Retail loans	965.96	32.65	6.78	0.70	814.08	29.35	6.97	0.86
Total loans and advances to customers	2,959.15	100.00	31.43	1.06	2,773.71	100.00	29.67	1.07

Note: (1) Overdue discounted bills are transferred to corporate loans.

#### 3.4.3 Distribution of loans and NPLs by industry

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

*Unit: RMB100 million, except for percentages*

	30 June 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
<b>Corporate loans</b>								
Commerce and services	537.96	18	8.20	1.52	581.33	21	8.90	1.53
Manufacturing	401.12	14	10.59	2.64	409.94	14	8.05	1.96
Public utilities	467.34	16	0.10	0.02	365.11	13	–	–
Real estate	110.08	4	1.71	1.55	111.00	4	2.54	2.29
Construction	148.03	5	1.45	0.98	127.66	5	0.47	0.37
Transportation	52.66	2	0.36	0.69	39.50	1	0.51	1.29
Energy and chemical	59.55	2	–	–	59.03	2	0.44	0.75
Catering and travelling	18.60	–	1.74	9.37	18.74	1	1.52	8.11
Education and media	18.59	–	0.02	0.09	18.80	1	0.08	0.43
Financial services	24.65	1	–	–	44.57	2	–	–
Others <sup>(1)</sup>	19.56	–	0.48	2.46	16.34	1	0.19	1.16
<b>Discounted bills</b>	135.05	5	–	–	167.61	6	–	–
<b>Retail loans</b>	965.96	33	6.78	0.70	814.08	29	6.97	0.86
<b>Total loans and advances to customers</b>	2,959.15	100	31.43	1.06	2,773.71	100	29.67	1.07

Note: (1) These mainly include the planting, forestry, livestock industry and the fishery industry.

In the first half of 2017, the Bank's overall credit strategy was to "practice the green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls in key areas and key industries, and strictly adhere to the risk bottomline". The Bank guided credit resources to better serve the real economy, actively allocated credit resources to "small and micro" enterprises and developed green credit. The Bank also implemented credit limit management over real estate and industries with overcapacity, and implemented industry risk prevention and NPL control on the "Non-green Industries" such as steel, coal and shipbuilding industries and the related steel trade and coal trade industries.

## Chapter III Management Discussion and Analysis

### 3.4 LOAN QUALITY ANALYSIS (Continued)

#### 3.4.4 Distribution of loans and NPLs by geographical segment

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

*Unit: RMB100 million, except for percentages*

	30 June 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
Anhui	2,542.89	86	29.56	1.16	2,540.96	92	25.54	1.01
Jiangsu	416.26	14	1.87	0.45	232.75	8	4.13	1.77
<b>Total loans and advances to customers</b>	<b>2,959.15</b>	<b>100</b>	<b>31.43</b>	<b>1.06</b>	<b>2,773.71</b>	<b>100</b>	<b>29.67</b>	<b>1.07</b>

The Bank has expanded its business into Nanjing, Jiangsu Province since 2009. In the first half of 2017, total loans attributable to Jiangsu Province accounted for 14% of the total loans and advances to customers, while NPLs attributable to Jiangsu Province accounted for 5.95% of the total NPLs.

#### 3.4.5 Distribution of loans and NPLs by type of collateral

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

*Unit: RMB100 million, except for percentages*

	30 June 2017				31 December 2016			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
Collateralized loans	1,426.20	48	19.45	1.36	1,386.88	50	19.52	1.41
Pledged loans	448.80	15	0.05	0.01	181.14	7	0.6	0.33
Guaranteed loans	613.36	21	10.32	1.68	701.79	25	8.42	1.2
Unsecured loans	335.74	11	1.61	0.48	336.29	12	1.13	0.34
Discounted bills	135.05	5	–	–	167.61	6	–	–
<b>Total loans and advances to customers</b>	<b>2,959.15</b>	<b>100</b>	<b>31.43</b>	<b>1.06</b>	<b>2,773.71</b>	<b>100</b>	<b>29.67</b>	<b>1.07</b>

With the economic downturn, the Bank focused on the implementations of risk mitigation measures including increasing collaterals to prevent and control risk. As of the end of the Reporting Period, both NPL and NPL ratio of the Bank's guaranteed loans and unsecured loans increased as compared with those at the end of 2016, which was mainly due to the change in the current overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.



## Chapter III Management Discussion and Analysis

### 3.4 LOAN QUALITY ANALYSIS (Continued)

#### 3.4.6 Loans of the top 10 single borrowers

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

*Unit: RMB million, except for percentages*

Top 10 borrowers	Industry that borrower belongs to	Amount of loans as of 30 June 2017	Percentage of net capital
A	Financial services	2,000	2.81%
B	Public utilities	1,450	2.03%
C	Construction	1,221	1.71%
D	Mining	1,138	1.60%
E	Public utilities	1,066	1.50%
F	Public utilities	1,000	1.40%
G	Public utilities	1,000	1.40%
H	Public utilities	1,000	1.40%
I	Public utilities	1,000	1.40%
J	Commerce and services	938	1.31%
Total		11,813	16.56%

#### 3.4.7 Distribution of loans by overdue period

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

*Unit: RMB million, except for percentages*

	30 June 2017	31 December 2016
Total overdue customer loans and advances listed by duration		
Less than 3 months	1,183	1,609
3 to 6 months	1,646	1,444
6 to 12 months	1,295	1,737
Over 12 months	1,363	1,274
Total	5,487	6,064
Less than 3 months	21.56%	26.53%
3 to 6 months	30.00%	23.82%
6 to 12 months	23.60%	28.65%
Over 12 months	24.84%	21.00%
Total	100.00%	100.00%

## Chapter III Management Discussion and Analysis

### 3.4 LOAN QUALITY ANALYSIS (Continued)

#### 3.4.8 Restructuring loans

During the Reporting Period, the Bank's restructured NPLs amounted to RMB35.0916 million. Such credit assets were classified as substandard, which included 7 corporate loans amounting to RMB29.9024 million and 5 retail loans amounting to RMB5.1892 million. As of 30 June 2017, carrying value of the restructured loans of the Bank amounted to RMB785 million, representing a decrease of RMB46 million as compared to the end of last year.

#### 3.4.9 Change of allowances for loan impairment

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

The following table sets forth the changes of the Bank's allowances for impairment on loans to customers:

	<i>Unit: RMB million</i>	
	<b>30 June 2017</b>	31 December 2016
Balance at the beginning of the period/year	<b>8,035</b>	6,006
Net allowances for impairment on loans to customers	<b>2,394</b>	4,767
Unwind of discount interest on allowance during the period/year	<b>(21)</b>	(89)
Loans written-off during the period/year	<b>(2,040)</b>	(2,807)
Loans collected during the period/year	<b>220</b>	158
Balance at the end of the period/year	<b>8,588</b>	8,035

The Bank adhered to a stable and prudent policy in respect of making provisions. As of the end of the Reporting Period, the balance of allowances for impairment losses on loans of the Bank amounted to RMB8,588 million, representing an increase of RMB553 million as compared with the end of last year. The NPL allowance coverage ratio was 273.21%, representing an increase of 2.44% as compared with the end of last year; the allowance-to-loan ratio was 2.90%, remaining unchanged as compared with the end of last year.

## Chapter III Management Discussion and Analysis

### 3.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBRC within the Reporting Period.

In the first half of 2017, the Bank calculated the capital adequacy ratio in accordance with the relevant requirements of the “Administrative Measures for Capital of Commercial Banks” issued by the CBRC. As of 30 June 2017, the Bank’s capital adequacy ratio was 12.42%, Tier 1 capital adequacy ratio was 9.69%, and core Tier 1 capital adequacy ratio was 8.62%.

Unit: RMB million, except for percentages

	30 June 2017	31 December 2016
<b>Core Tier 1 capital</b>	<b>49,611.08</b>	46,637.74
Including: paid-up capital	<b>11,049.82</b>	11,049.82
Capital reserve	<b>6,311.41</b>	6,630.29
Surplus reserve and general reserve	<b>14,933.32</b>	12,744.61
Retained earnings	<b>16,374.14</b>	15,456.59
Non-controlling interests	<b>942.39</b>	756.43
Regulatory deductions for core Tier 1 Capital	<b>(104.18)</b>	(116.94)
<b>Core Tier 1 capital, net of deductions</b>	<b>49,506.90</b>	46,520.80
Other Tier 1 capital, net of deductions	<b>6,115.74</b>	6,085.61
Tier 1 capital, net of deductions	<b>55,622.64</b>	52,606.41
<b>Tier 2 capital</b>	<b>15,677.71</b>	16,126.98
Including: Tier 2 capital instruments and premium	<b>9,981.92</b>	10,382.62
Surplus loan loss provisions	<b>5,444.49</b>	5,550.13
Non-controlling interests	<b>251.30</b>	194.23
<b>Total capital, net of deductions</b>	<b>71,300.35</b>	68,733.39
<b>Risk-weighted assets</b>	<b>574,015.04</b>	529,232.05
<b>Capital adequacy ratio</b>	<b>12.42%</b>	12.99%
<b>Tier 1 capital adequacy ratio</b>	<b>9.69%</b>	9.94%
<b>Core Tier 1 capital adequacy ratio</b>	<b>8.62%</b>	8.79%

## Chapter III Management Discussion and Analysis

### 3.6 SEGMENT PERFORMANCES

#### Operating segments

The major business of the Bank including: corporate banking, retail banking, treasury and others. The table below sets forth the segment performance of the Bank by business category as at the periods indicated:

*Unit: RMB million, except for percentages*

Items	January to June 2017		January to June 2016	
	Segment profit before tax	Percentage	Segment profit before tax	Percentage
Corporate banking	2,539	52.20%	2,415	55.35%
Retail banking	364	7.48%	410	9.40%
Treasury	1,924	39.56%	1,368	31.35%
Others	37	0.76%	170	3.90%
Total	4,864	100.00%	4,363	100.00%

### 3.7 OTHERS

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

The off-balance sheet items of the Bank include letters of guarantee, letters of credit, bank acceptance and bank commitment letters. Commitment letters include loans commitment, operating leases commitment, capital commitment and certificate government bond honor commitments. Loan commitment is the main component of the bank commitment letters. Contingencies and commitments can be found in Note 39 to the financial statements of this interim report.

#### 3.7.2 Overdue outstanding debt

As of 30 June 2017, the Bank had no overdue outstanding debt.

## Chapter III Management Discussion and Analysis

### 3.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICIES AND THE FOCUSES OF THE OPERATION

#### 1. Continuous recovery of the global economy

In the first half of 2017, the global economy continued to recover and the economic and trade activities of major economies picked up. From the perspective of a series of leading indicators, the global economy was gradually out of low-speed operation that lasted for six consecutive years. However, due to the policy adjustments of major economies, such as China's "de-leveraging, de-capacity" and real estate control etc. as well as the fact that oversupply of the commodity market has not yet been fully corrected, and that private investment enthusiasm has not yet been effectively activated, the possibility for the global economy to enter a relatively strong recovery cycle remains remote. Close attentions shall be paid to the uncertainties brought by the macro policies of the United States, the Brexit and geopolitical conflicts in the second half of 2017.

With the implementation of interest rate increase by the Federal Reserve, the policy uncertainty decreased, the financial risk indicator stabilized, the global financial stability increased, and the overall financial vulnerability changes of the emerging economies were smooth. Nevertheless, the volatility of the local financial markets remained relatively large. Under the backdrop of rebound in inflation and steady decline in the unemployment rate, the plan of the United States for interest rate increase and shrinkage of its balance sheet is expected to be carried out, and the global monetary policy easing is facing a new turning point.

#### 2. Momentum of endogenous growth of China garnered progressively

Along with the continuing implementation of the supply-side structural reform, the economic structure got further optimized. It was embodied by, inter alia: the steady improvement of corporate profitability that indicated a positive outcome of the supply-side structural reform; the rapid growth in investment in and added value of hi-tech manufacturing industry that contributed to the gradual optimization of economic structure; the declined growth rate of investment in real estate and the progresses made in destocking; the steady growth in consumption, thanks to the increase in proportion of online sales and the vigorous growth in online retail; and the improvement achieved in import and export, with the proportion of general trade increased. Momentum of endogenous growth in economy garnered progressively in despite of the influence of the gradual withdrawal of quantitative easing policies and the US dollar interest rate hike globally, and the impact of the financial deleveraging and the supply-side structural reform for real economy carried out domestically.

#### 3. Operation mode of traditional banking industry encountering the impact of financial technologies

China is currently encountering the impact of the new economy and the new technological revolution, and the fundamental structure of the traditional financial industry is undergoing profound changes. The new economy is in the womb of time, and the new technological revolution marked by cloud computing, big data, Internet of Things and intelligent progress has changed the social life in all aspects, and affected the mode of social production and people's lifestyle. During the first half of 2017, the integration of financial technologies and traditional banks has accelerated, and blockchain and big data have begun to change the operation and management of banks, thus the operation mode of the traditional financial industry has been impacted, with financial boundaries becoming increasingly ambiguous and financial risks becoming increasingly complicated, and various new financial eco-systems, financial service modes and financial products emerging in an endless stream, as a result of which, the traditional financial industry has entered into a new revolutionary era – the era of new finance. Under such background, the Bank will face new market opportunities, but it will also face new challenges in respect of the Bank's product system, business mode and management level.

## Chapter III Management Discussion and Analysis

### 3.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICIES AND THE FOCUSES OF THE OPERATION (Continued)

#### 4. Significant changes in customers' financial demands

Looking back into the development history of banking industry, the developments of new financial markets, new industry conditions and new tools have been driven by the changes in customers' demands. With the promotion on swap of local debts and the exploration on PPP model, an increasingly higher level of standardization and marketization is required for the government's financing demands. With the implementation of the supply-side structural reform, the financial demands of the enterprise customers have shifted to the smooth use of funds, efficient liquidity of assets, and use of various capital instruments. As the scientific and technological progress, industrial restructuring and consumption upgrade have accelerated, the customers' demands in the industry more focus on customization and specialization. Relying solely on providing a single product is no longer able to meet the customers' financial demands, and the traditional banking service model is unsustainable.

#### 5. Banking business transformation driven by financial institutions' enhanced supervision

Along with the diversification and perfection of customers' demands, many financial institutions have put forward a comprehensive financial strategy, and the traditional financing system which focuses on indirect financing has gradually changed. The cross-industry competition among banks, securities, trusts, funds and other financial institutions is becoming more and more intense, and innovative models of financial services continue to emerge. Yet, the deleveraging campaign in financial industry in 2016 and the supervision enhancement in banking industry in 2017 have suggested an obvious trend of de-channelization and deleveraging, and already brought a significant impact on the banking industry. Driven by factors such as increase in costs of capital, M2 growth rate breaking 10%, off-balance sheet financing shrinking sharply, the declining growth in scale and profit of the banking industry and the further narrowed interest rate spread, demands for restructuring and upgrading of commercial banks become even eagerer, promoting the development of the banking industry into a new stage.

#### 6. Prospects and measures

The overall economic situation in the second half of 2017 will be relatively stable. From the perspective of international economy, although the uncertainty of the external environment will sustain, it will be stable with better overall prospect. The Federal Reserve's promotion of shrinkage of its balance sheet and interest rate hikes indicates the global economy is constantly recovering, and the economic performance of the major economies including the Euro zone, the United Kingdom and Japan will be better than expected. From the perspective of domestic economy, the policy dividend effect will be continuingly shown. "Cutting overcapacity, destocking and deleveraging, reducing costs and identifying growth areas" will be advanced thoroughly, to promote the real economy to become better and corporate profit to grow faster. The innovation-driven development strategy will be implemented deeply, making the rapid development of new driving force to promote economic upgrade. In the second half of 2017, a more vigorous fiscal policy is expected to be launched, the monetary policies will remain stable and neutral, and the economy will show a trend of stabilization. Intensified challenges from internet finance, complex and volatile regulatory environment, expansion of integrated operation, and risk of deteriorating asset quality will pose challenges to the traditional banking industry. Meanwhile, the Yangtze River Economic Belt strategy, new-type urbanization construction and the promotion of general innovative reform will bring good opportunities for the Bank's steady development.

By seizing the opportunities brought about by the further regularization over government expenditures, the Bank will play its role vigorously to support the local economic development, innovate differentiated financial products, grasp opportunities provided by the new pattern of bank-government cooperation, promote the pilot operation of comprehensive financial services for enterprises, digital credit for small and micro enterprises and mobile financial services for communities, secure project reserves and loan placements, maintain its asset quality through strict risk control and consolidate customer base for the purpose of creating new profit growth points for the Bank.



## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION

#### 3.9.1 Wholesale banking business

The Bank provides a full range of wholesale financial products and services to corporations, financial institutions and government agencies, which include corporate loans, corporate deposits, investment banking, transaction banking, “PPP Quanchengtong (全程通)”, fund business and a series of fee- and commission-based services, and provides solutions of comprehensive services to large corporations.

In the first half of 2017, while maintaining its advantages in the existing wholesale business, the Bank remained customer-centric and continued to grow its wholesale business in the local market of Anhui Province, and also vigorously expanded to markets beyond Anhui Province such as Nanjing, fostering new sources of business growth. The Bank continued to make innovation on products and services and integrated various channel resources to provide integrated financial services to customers. The Bank continued to optimize customer structure and income structure and aimed to achieve sustainable growth through the integrated operation of its business. The Bank strengthened its risk management and control, and comprehensively enhanced the profitability of its assets, thus effectively promoted a healthy and fast development of the wholesale banking business. As of the end of 2016, the Bank’s market share of corporate deposits in local and foreign currencies has continued to rank the first in Anhui Province for nine consecutive years. In the first half of 2017, the Bank has further expanded its leading position in corporate deposits within Anhui Province with its market share increasing by 0.38% over the end of last year. Transformation businesses including investment banking, trade banking, supply chain finance, industry fund and “PPP Quanchengtong (全程通)” business have all achieved rapid growth, and were widely recognized by the market.

Facing new changes in the economic and financial situation, the Bank will continue to focus on reform and innovation in the second half of 2017. The Bank will accelerate its integrated business development, further enhance the quality of its professional services, and make efforts to achieve sustainable and healthy development of the wholesale banking business.

#### **Corporate loans**

Corporate loans are the most important component of the Bank’s loan portfolio. Currently, the main corporate loan customers of the Bank are enterprises operating their businesses within Anhui Province and Jiangsu Province. Corporate loans of the Bank mainly include working capital loans, fixed asset loans, “PPP” project loans and other corporate loans (by type of products). The Bank provides working capital loans to corporate customers for their daily operations. The Bank provides fixed asset loans for corporate customers to satisfy their financing demands in fixed asset investment projects including new construction, expansion, reconstruction and purchase. The Bank also provides other corporate loan products including shantytowns redevelopment loans, PPP loans and supply chain financing. During the first half of 2017, with adherence to the principle of supporting real economic development and having regard to the national macro-economic policies, the Bank further optimized the industry structure of corporate loans by prioritizing its support to industrial transformation and upgrade, strategic emerging industries, traditional industries with competitive advantages and modern services industries. At the same time, the Bank limited the growth of loans in “Non-green Industries”. As of 30 June 2017, the balance of the Bank’s corporate loans (including discounted bills) was RMB199,319 million, representing an increase of RMB3,356 million from the end of 2016.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.1 Wholesale banking business (Continued)

##### **Discounted bills**

In the first half of 2017, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically followed the pace of bills business development, enhanced the profitability of the bills business, and promoted the healthy and legitimate development of bills business. As of 30 June 2017, the Bank's loan balance of discounted bills amounted to RMB13,505 million, representing a decrease of RMB3,256 million or 19.43% from the end of last year.

##### **Corporate deposits**

The Bank provides corporate deposits products and services to corporate customers, such as corporate demand deposits, corporate time deposits, corporate call deposits, corporate agreement deposits, negotiated deposits, corporate structured deposits, corporate intelligent call deposits and corporate intelligent time deposits. The Bank actively addressed the challenges brought by interest rate liberalization. While focusing on improving the performance of corporate deposits, the Bank continued to improve the market competitiveness of corporate deposits businesses, strived to expand the sources of low-cost corporate deposits, and further improved the corporate deposit structure. The Bank has established a leading market position in terms of corporate deposits in Anhui Province. According to the data of the PBOC Hefei Central Sub-branch, the Bank maintained the first place in terms of corporate deposits in Anhui Province for nine consecutive years from 2008 to 2016. During the first half of 2017, the corporate deposits of the Bank grew steadily. As of 30 June 2017, the balance of corporate deposits of the Bank amounted to RMB363,901 million (excluding margin deposits), representing an increase of RMB31,014 million from the end of the last year. The Bank has further enhanced its leading position in regard to corporate deposits in Anhui Province.

##### **PPP (Public-Private-Partnership) business**

The Bank actively responded to the policies of central government, prioritized PPP business as its strategic business and fully supported the infrastructure construction conducted by local government through PPP model. The "PPP Quanchengtong (全程通)" business of the Bank provided a full range of professional services for PPP projects from identification to purchase, execution and delivery through integrating all kinds of professional resources including consultation, law, finance and engineering, which accelerated the pace in implementing PPP projects by the local government as well as provided comprehensive financial services for the government, thus promoting the rapid development of local economy and the improvement of people's livelihood. In 2016, under the support of Anhui Provincial Government, the Bank founded the provincial PPP guidance fund and PPP industry alliance in Anhui Province with a total fund registration size of RMB50,000 million. Relying on the provincial PPP guidance fund and PPP industry alliance, the Bank provided comprehensive financial services covering whole process and lifetime of the PPP projects and strived to develop itself into the brand image of a comprehensive financial services provider of the government through its comprehensive financial products such as funds, loans, letters of guarantee, supply chain, retail and asset securitization. In the first half of 2017, the Bank actively promoted the implementation of the "PPP Quanchengtong (全程通)" business through granting banking facilities of over RMB30,000 million to more than 40 PPP projects, and therefore, the Bank began to have an influence in the area of PPP business.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.1 Wholesale banking business (Continued)

##### *Fund business*

To meet the new needs of corporate customers under new situation, the Bank innovatively launched fund cooperation modes, including industry development fund, small and medium enterprise profit-making development fund and poverty alleviation fund. Industry development fund and small and medium enterprise profit-making development fund were used for supporting the development of strategic emerging industries and small and medium enterprises. In order to support poverty alleviation and fulfill its social responsibility, the Bank also issued and founded a few poverty alleviation funds, which achieved good social benefits and some economic benefits.

##### *Transaction banking*

Leveraging the advantages of modern treasury and financial service platforms, the Bank's cash management business has developed a series of integrated treasury services solutions covering account management, receiving and payment management, liquidity management, investment and finance management, risk management and information services to meet the ever-changing demands for treasury management of enterprises. In the first half of 2017, the Bank maintained its goal of building a bank that provides first-class cash management services, strove to perfect the construction of cash management product systems, comprehensively improved its cash management services and was devoted to providing comprehensive, integrated and one-stop treasury management services to corporate customers. The reputation and influence of "Zhuo Yue e+ (卓越e+)" cash management brand continued to improve. During the first half of 2017, the transaction volume of cash management business of the Bank reached RMB600,000 million, representing an increase of 33.33% as compared with the same period of last year.

The Bank actively optimized financial business structure of supply chain, and expanded supply chain finance business based on core enterprises. At the same time, the Bank continued to innovate in financial business model of supply chain and had developed more than 30 standardized products to meet the needs of the full supply chains, increasingly enhanced its brand image, and significantly promoted its comprehensive service ability and market influence. In June 2017, the Bank was awarded the title of "Best Trade Finance Products Innovation Bank" in Evaluation of China Trade Finance Excellence Awards for 2016 organized by the China Banking Association.

##### *Investment banking business*

In the first half 2017, the Bank focused on carrying out lead underwriting business of debt financing instruments, asset securitization, structure financing, merger and financing, investment and financing consultancy and other investment banking businesses, and promoted its businesses transformation. The Bank constantly enriched products in investment banking business by launching innovative products, such as residential mortgage backed security (RMBS) and debt financing plans.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.1 Wholesale banking business (Continued)

##### *Investment banking business (Continued)*

After obtaining the qualification as a lead underwriter for Type B Debt Financing Instruments of Non-financial Enterprises, the Bank actively carried out lead underwriting business. During the first half of 2017, the Bank successfully registered three debt financing instruments, with a registered amount of RMB6,200 million, issued eleven debt financing instruments, with a total issuance amount of RMB10,600 million, filed four debt financing programmes, with a total filing amount of RMB6,900 million, and issued one debt financing programme, with an issuance amount of RMB300 million, effectively facilitating the business transformation and development of the Bank.

##### *International business*

In 2017, the Bank continued to strengthen its support to the “One Belt, One Road” national strategy, RMB internationalization, and small and medium enterprises to “Go Global”, put more efforts on the promotion of products that are conducive to the business transformation and with low capital consumption such as letters of credit, letters of guarantee and derivative products, continued to make innovations in areas including cross-border financing, foreign exchange bond investment, international factoring and inter-bank agency and cooperation, and explored ways to study and apply financial service solutions integrating RMB with foreign currencies to constantly improve the integrated financial service level of the Bank.

The Bank always adheres to being customer-based, and constantly improves its international market share. As of the end of June 2017, the Bank had a total of 3,867 customers in trade finance, among which active customers in trade finance amounted to 1,203. With continuing expansion of its international customer group, the Bank's customer base continues to consolidate.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.1 Wholesale banking business(Continued)

##### *International business (Continued)*

In the first half of 2017, the Bank further enhanced its position as the major bank in respect of cross-border settlement in Anhui Province. As of the end of June 2017, the Bank handled a total of US\$4,437 million in international settlement, representing an increase of 18.50% compared with the same period of last year, and its percentage of cross-border payment and settlement as well as foreign exchange settlement within the province ranked 5th among 28 financial institutions. The Bank continued to enrich its transaction banking products system, launched innovative products such as domestic guarantees for overseas loans, domestic guarantee for overseas debts, cross-border two-way RMB capital pool, two-way foreign currency capital pool according to market demand, and prepared to apply for the qualification to conduct businesses including foreign currency bond investment and international factoring. The Bank accumulatively granted on-sheet international trade financing equivalent to RMB2,192 million and domestic letters of credit and financing business thereunder of RMB16,556 million, handled cross-border investment and financing business such as domestic guarantees for overseas loans and domestic guarantee for overseas debts of US\$974 million in total, and the balance of financing external guarantee amounted to US\$1,470 million. The scale of innovative financing products hits a new record high.

The foreign exchange products were enriched continuously with increasing transaction volumes. As of the end of June 2017, the volume of foreign exchange transactions amounted to US\$7,204 million, derivative products business (including future foreign exchange settlement, forward foreign exchange transactions, foreign exchange swap and RMB foreign exchange swaps) amounted to US\$1,883 million, and foreign currency bond investments that were entrusted to other banks amounted to US\$100 million.

In respect of agency banking channel construction, the Bank constantly improved its overseas agency networks according to customer and business development demands. Relying on China-Russia financial alliance, the Bank initiated in-depth cooperation among the members and implemented its new layout and new strategies of agency banking in accordance with the "One Belt, One Road" national strategies in the first half of 2017. In respect of cross-border clearing channel construction, the Bank newly set up clearing accounts for Won and other minor currencies following the establishment of Yuan and Won direct trading market, taking the total number of overseas clearing accounts for the main settlement currencies to fourteen. The Bank improved its clearing channels constantly to fully meet customer demands for clearing and settlement services.

#### 3.9.2 Retail banking business

##### *Business overview*

During the first half of 2017, through enhancing market expansion, providing innovative financial products and services, accelerating business channels and team building, the Bank comprehensively summarized and rationalized its retail business management regulations and the workflow and standards of its retail business line while completing the promotion of outlet capacity improvement, which led to the optimization and establishment of an effective business management system under current market competition. The Bank actively built wealth management systems, and spared no efforts to promote services designed for different client groups and marketing activities. These efforts have helped to lay down a solid foundation for retail business development of the Bank and improve the performance indicators at a faster speed, and constantly enhance regional competitiveness of its retail business.



## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.2 Retail banking business (Continued)

##### *Business overview (Continued)*

During the first half of 2017, the Bank's active customer base maintained a steady growth, among which the number of medium-to-high-value customers grew faster than others, and customer structure was further optimized. Wealth management business maintained a rapid growth with the increment recorded in the first half of 2017 to reach that of the entire last year. The sales of wealth management products (WMPs) increased persistently and the sales of government bonds were in a leading position in Anhui Province. The scale of deposit from retail customers expanded rapidly. The Bank ranked first in Anhui Province in terms of growth rate of retail deposits and firmly occupied the third place in terms of increment. New indicators of retail deposits and daily average saving deposits hit their record high for the same period historically, and the scale of retail consumption loan business continued to grow, with the market share further increased.

During the second half of 2017, under the strong impact from interest rate liberalization and internet finance, the pressures of retail business of the Bank will become more pronounced. The Bank will, through improving the retail business philosophy, management, innovation ability and technology, strengthen the retail business talent pool, increase the capabilities of outlets, broaden wealth management product line, improve service quality and strengthen data analysis ability. The Bank will continue to consolidate and strengthen the foundation work to improve sales capacity of outlets, gradually apply the improved sales capacity of outlets to the Bank's inclusive financing outlets, including Huinong sub-branches and Huimin sub-branches, speed up to promote products and functions of retail businesses to be offered online and accelerate the construction of personal mobile financial portals, so as to further promote the transformation and upgrading of its retail business. At the same time, the Bank will accelerate the pace in the establishment of wealth centers, community sub-branches, small and micro sub-branches, Huinong sub-branches and Huimin sub-branches. The Bank will continue to maintain a rapid and healthy development for each retail business so as to comprehensively improve the overall competitiveness of and contribution to the entire business by retail businesses.

##### *Wealth management business*

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

During the first half of 2017, the Bank raised RMB78,458 million for the personal wealth management business, representing a year-on-year increase of 95.38%. Penetration of personal wealth management products amounted to RMB60,493 million, representing a year-on-year increase of 78.41%. Agency sale of open-end funds amounted to RMB1,695 million, representing a year-on-year decrease of 1.4%. Penetration of funds was RMB1,198 million, representing a year-on-year decrease of 2.12%. Agency sale of insurance products was RMB76 million, representing a year-on-year decrease of 63%. Agency sale of government bonds amounted to RMB507 million, representing a year-on-year increase of 10%.

During the first half of 2017, income from the intermediary business of the Bank's personal wealth management business amounted to RMB256.7741 million, representing a year-on-year increase of RMB71.7693 million or 38.79%. Among those, income from the intermediary business of personal wealth management services amounted to RMB251.1883 million, representing a year-on-year increase of 41.89%, whereas income from the intermediary business of agency sale of funds amounted to RMB0.6951 million, representing a year-on-year decrease of 37.97%. Income from the intermediary business of agency sale of insurance products amounted to RMB2.0709 million, representing a year-on-year decrease of 51%. Income from the intermediary business of agency sale of government bonds amounted to RMB2.8198 million, representing a year-on-year increase of 10%.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.2 Retail banking business (Continued)

##### **Bank card business**

##### *One card*

During the first half of 2017, the Bank further deepened the expansion and operation of the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through vigorously promoting the circulation of financial IC cards and focusing on carrying out the campus one card project, the Bank enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities for bank cards, constantly cultivated the card-using habits of customers and constantly enhanced its customer loyalty, so as to further achieve a steady and continuous growth in Huangshan debit card transactions. As of the end of June 2017, the Bank issued 10.9803 million debit cards in total. Bank card administration fees income amounted to RMB259.44 million from January to June 2017, representing a year-on-year increase of RMB18.218 million or 7.55%, which was primarily influenced by a rapid growth in income generated from, among others, the promotional campaigns of bank card consumptions and different types of credit card installments.

##### **Retail loans**

During the first half of 2017, with an aim to expand and strengthen its consumption loan business and with concentration on customers and products, the Bank strengthened the planning of its personal consumption loan business, beefed up the construction of its team, accelerated its channel integration, improved its service quality and contributed more efforts to marketing and investing of consumption loans business focusing on personal housing loans to achieve a continuous growth in the scale of the personal consumption loans business. As of the end of June 2017, the balance of the Bank's personal consumption loans (exclusive of the overdraft amount of credit cards) amounted to RMB63,296 million, representing an increase of RMB11,979 million or 23.34% as compared with the beginning of 2017, which accounted for 21.33% in the industry, representing an increase of 2.88 percentage points as compared with the end of 2016. The personal consumption NPL ratio of the Bank was 0.16%, representing a decrease of 0.03 percentage point as compared with the end of 2016.

In order to promote the development of personal business loans and microloan business, the Bank constantly optimized the mode of microloan business and took the initiative in constructing microloan centers (微貸中心) in the first half of 2017. Also, the Bank intensified its efforts in product innovation and construction of intelligent financial service platforms, accelerated the promotion of microloan financial service platforms, and ceaselessly strengthened the development of personal business loans and microloan products and channels. As of the end of June 2017, the market share of the Bank's personal business loans and microloans in Anhui Province reaching 8.34%.



## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.2 Retail banking business (Continued)

##### *Retail customer deposits*

During the first half of 2017, the Bank experienced further development of interest rate liberalization, intensifying competition in internet finance, diversification of customer investment needs, and intense competition in the industry. The Bank, by adhering to customer-centric business philosophy, focused on customers' needs on services including wealth management, payment settlement and loan financing, and continuously innovated products and marketing modes to adapt to the diversifying demands of customers through improving production capacity and deepening the establishment of rural inclusive financial systems, as a result of which the Bank achieved rapid growth in customer deposits. As of the end of June 2017, the Bank's total retail customer deposits amounted to RMB125,882 million, representing an increase of 19.28% as compared with the end of 2016. Among these deposits, the Bank's saving deposits from county regions amounted to RMB33,474 million, representing an increase of 39.11%. The Bank maintained a market share of 3.12% in Anhui Province with its retail deposits from county regions.

#### 3.9.3 Financial market business

##### *Business strategy*

During the first half of 2017, the Chinese economy maintained a steady and positive momentum. The growth rate of GDP for the first quarter reached 6.9%, which was mainly due to the continuous upturn in fixed asset investment and export data. The PBOC raised the open market interest rates twice during the first half of 2017, which led the interest rate of money market to move upwards on the whole. Meanwhile, the financial deleveraging work has been carried out gradually during this year. The overall yields of the bond market moved upwards as a result of the effect of the above factors. The Bank, after conducting an intensive study on the macro economic situations and an analysis on the trend of bond market, formulated its investment plan in an appropriate way and increased returns on asset portfolios and income from intermediary businesses. Firstly, through the analyses and judgments on the future interest rate trend, the Bank controlled the timing and progress of the bond investment and gradually increased the allocation of financial bonds with higher yields and credit bonds with better credit qualities when the yields moved upwards so as to enhance profitability of asset portfolios. Secondly, the Bank proactively participated in the securities trading in secondary markets and put an emphasis on swing trading in order to increase spread income while sparing no efforts to improve market-making trades and strengthen inter-bank market-making capabilities. Thirdly, the Bank actively conducted interest rate swaps and other derivative-related transactions and diversified the strategies for bond transactions with a view to improving the market recognition and influence of the Bank in the derivatives trading market. As of the end of June 2017, the average duration of RMB bond investment portfolios was 2.59 years. Return on investment portfolios was 3.87%. The yield after taking account of the tax rebate on the interest income of treasury bonds, railway bonds and local government bonds was 4.54%.

##### *Business development*

During the first half of 2017, the Bank promoted a steady and sound growth of its financial markets business by optimizing the structure of its investment portfolios and enriching types of products. As of the end of June 2017, the Bank's investment scale amounted to RMB381,222 million, representing an increase of 12.74% as compared with the beginning of 2017.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.4 Asset management business

During the first half of 2017, the asset management business of the Bank realized sound development with its management mechanism constantly improved and customer structure further optimized. In respect of business scale, supported by two major product systems, namely “Ben Li Ying” (本利盈) and “Chuang Ying” (創贏), the Bank strengthened product innovation and promoted steady business development in the first half of 2017. The balance of wealth management products at the end of the Reporting Period amounted to RMB93,086 million, representing an increase of 37.67% as compared with the corresponding period of last year. In respect of customer system, the Bank continually optimized the client structure, enhanced the building of the high-net-worth clients system and spared more efforts to support retail customers in the industry during the first half of 2017. The surviving balance of personal wealth management products amounted to RMB60,493 million, representing an increase of 78.41% as compared with the corresponding period of last year.

#### 3.9.5 Distribution channels

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

##### *Physical distribution channels*

As of 30 June 2017, the Bank built a total of 671 self-service banks and put a total of 2,351 pieces of self-service equipment into operation, including 584 automatic teller machines, 1,011 cash recycling systems, 571 self-service terminals and 185 intelligent self-service terminals (including self-service card issuing machines).

##### *Electronic banking channels*

The Bank places great emphasis on optimizing and expanding electronic banking channels, including online banking and mobile banking, which has effectively relieved the pressure on sales outlets. In the first half of 2017, the trading account transactions via retail electronic channels accounted for 83.38%, representing a decrease of 0.83 percentage point as compared with the end of 2016; whereas the trading account transaction via corporate electronic channels accounted for 63.61%, representing an increase of 2.50 percentage points as compared with the end of 2016.

##### *Online banking*

In the first half of 2017, the Bank's personal online banking business continued to develop rapidly with a substantial increase of customer base and increasing trading activities of customers. As of 30 June 2017, the total number of personal online banking customers amounted to 2.5140 million. The trading account transactions via personal online banking accounted for 50.63%, representing an increase of 3.23 percentage points over last year. The number of personal online banking transactions accumulated to 99.5671 million in the first half of 2017, representing a year-on-year increase of 6.45%. Among these transactions, the number of online payment transactions was 26.1294 million, representing a year-on-year increase of 191.05%. The transaction amount was RMB15,853 million, representing a year-on-year increase of 57.05%. In recent years, the enterprise online banking business of the Bank experienced a comprehensive and rapid development with constant solidification of customer base and continued improvement in efficiency of channels. Therefore, it has become an efficient operating channel connecting customers across various areas of public business. It continued to develop towards the direction of customer operation, value exploration, cross sales and industry expansion. In the first half of 2017, the Bank recorded 23.0357 million transactions of enterprise online banking, representing a year-on-year increase of 23.75%. The transaction amount of enterprise online banking accumulated to RMB937,291 million, representing a year-on-year decrease of 7.50%.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.5 Distribution channels (Continued)

##### **Mobile banking**

In the first half of 2017, the Bank's personal mobile banking continued to maintain a rapid growth. As of 30 June 2017, the total number of mobile banking customers reached 1,685,400. During the Reporting Period, the number of transactions reached 32.5619 million, representing a year-on-year increase of 125.92%, and the transaction amount accumulated to RMB98,364 million, representing a year-on-year increase of 109.59%.

##### **Direct banking**

As of the end of June 2017, the total number of active direct banking customers of the Bank reached 3,900,000 and the total penetration of products reached RMB6,428 million, with a total transaction amount over RMB50,000 million. In respect of the product system construction, "Hui Chang You Cai (徽常有财)" focused on the building of the flagship products in the three key product lines of wealth management, accounts and payments and settlements as well as internet credit service. In respect of marketing development and brand building, "Hui Chang You Cai (徽常有财)" actively tried to apply the internet thinking and expanded the market by means including network integrated marketing, cooperative marketing with institutions and precise marketing targeted at specific customer base. "Hui Chang You Cai (徽常有财)" ranked fourth among the direct banking list of 2016 in China, winning against a large number of state-owned banks and national joint-stock commercial banks. It was also awarded the "2016 Best Direct Banking Function Award" by the China Financial Certification Authority (CFCA) in 2016.

#### 3.9.6 Business of subsidiaries and major companies in which the Bank has shareholdings

##### **Subsidiaries**

###### *Huiyin Financial Leasing Co., Ltd.*

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

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

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.6 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

##### *Subsidiaries (Continued)*

##### *Huiyin Financial Leasing Co., Ltd. (Continued)*

Since its opening, Huiyin Financial Leasing, applying the philosophy of “setting example, laying foundation, seizing customers and innovating model”, has set up a foothold in Anhui and is open to the national market. Huiyin Financial Leasing has actively expanded its business scope and customer resources, providing customers with professional and integrated financial leasing services. It adheres to the idea of stable business operation and sustainable development and strives to strike a balance among its business scale, speed, quality and efficiency. It promotes business scale expansion, strives to adjust the structure of its customers, products, businesses and income and persists in risk management so as to raise risk resilience. Huiyin Financial Leasing develops its resource advantage and improves its core competitiveness, creating competitive advantage for its medium-term and long-term development. As of the end of June 2017, Huiyin Financial Leasing had total assets of RMB23,112 million (including a balance of leasing assets of RMB23,503 million) and total liabilities of RMB20,639 million, realized a net profit of RMB186 million and an equity of RMB2,473 million, with a NPL ratio of 0.55%. Each major operating indicator was in line with regulatory standards.

##### *Jinzhai Huiyin Rural Bank Co., Ltd.*

Registered in Jinzhai County of Lu’an City, Jinzhai Huiyin Rural Bank Co., Ltd. (“Jinzhai Huiyin”) officially commenced its business on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd, along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of its shareholding. Its principal businesses include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redeeming and underwriting government bonds as agents; (8) collecting payments as an agent and engaging in insurance business as an agent; and (9) other businesses approved by the banking regulatory authority under the State Council.

Since establishment, with the support from shareholders, Jinzhai Huiyin has upheld its original goal upon establishment. It set up a foothold in Jinzhai County and devoted itself to solving the “Three Dimensional Rural Issues” with a mission to promote comprehensive financial reform in the rural villages and accelerate the economic and social development in Jinzhai County. It has focused its business on agricultural credit, deposit growth, channel development, and risk prevention and control, which has produced good results of business development and received recognition from customers, local government and regulatory authorities. In the first half of 2017, Jinzhai Huiyin was officially granted an access to personal credit report inquiry service of the PBOC, which made it the first rural bank in Lu’an City that was independently connected to the credit reporting system of the PBOC and further improved the availability and convenience of basic financial services. As of the end of June 2017, the total assets and total liabilities of Jinzhai Huiyin amounted to RMB1,687 million and RMB1,568 million, respectively, while its deposits and loans were RMB1,552 million and RMB846 million, respectively. In the first half of 2017, it realized a net profit of RMB10.65 million, with a NPL ratio of 0.15%. Each major operating indicator was in line with regulatory standards.

## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.6 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

##### *Subsidiaries (Continued)*

##### *Wuwei Huiyin Rural Bank Co., Ltd.*

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. (“Wuwei Huiyin”) commenced its businesses on 8 August 2010. Its registered capital was RMB100 million, to which the Bank contributed RMB40 million, accounting for 40% of the shareholding. Other major shareholders are local enterprises and individual shareholders in Wuwei. Its principal businesses include: (1) attracting deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses as approved by the banking regulatory authorities under the State Council.

Since opening, Wuwei Huiyin has been adhering to Huishang Bank’s operating philosophy. Unremittingly following the Scientific Outlook on Development, it supported the development of “Three Dimensional Rural Issues” economy, individual businesses and SMEs, with base in Wuwei and reliance on local villages and towns. In accordance with the operating philosophy of “close to the towns, serving Three Dimensional Rural Issues”, Wuwei Huiyin translated its advantages in advanced corporate governance structure, sound internal control mechanism, leading managerial skills and strong brand influence into actions. Under the effective risk control mechanism, Wuwei Huiyin innovated in the variety, forms and operation processes of loans. It provided flexible, high quality and efficient financial services tailored for the customers relevant to “Three Dimensional Rural Issues”. It also supported economic development in county area, extended services to the wider rural areas and provided intangible financial support to farmers’ production and development. In the first half of 2017, Wuwei Huiyin was granted an access to commercial credit report inquiry service, which further improved the model of rural credit community and was facilitating the opening of a personal credit reporting system. The availability and convenience of rural basic financial services have been further enhanced. As of the end of June 2017, the total assets and total liabilities of Wuwei Huiyin amounted to RMB2,437 million and RMB2,186 million, respectively, while its deposits and loans were RMB2,126 million and RMB1,693 million, respectively. In the first half of 2017, it recorded a net profit of RMB23.6692 million, with a NPL ratio of 1.07%. Each major operating indicator was in line with regulatory standards.



## Chapter III Management Discussion and Analysis

### 3.9 BUSINESS OPERATION (Continued)

#### 3.9.6 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

##### *Major companies in which the Bank has shareholdings*

###### *Chery Huiyin Motor Finance Service Co., Ltd.*

Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), which was established on 13 April 2009, is China's first independent brand auto finance company, and was jointly invested and set up by the Bank and Chery Automobile Co., Ltd. ("Chery Automobile"). The company was registered in Wuhu City with a registered capital of RMB500 million at its inception, of which, the Bank contributed RMB100 million to the registered capital of Chery Huiyin, accounting for 20% of its shareholding, while Chery Automobile contributed RMB400 million to the registered capital of Chery Huiyin, accounting for 80% of its shareholding. Pursuant to the resolutions adopted at the 2011 shareholders meeting of Chery Huiyin, Chery Huiyin's registered capital was increased from RMB500 million to RMB1,000 million in January 2013, of which, RMB167.70 million of shareholder dividends was converted to increased capital, and the remaining RMB332.30 million was paid in cash by the Bank and Chery Automobile in proportion to the original shareholding. In September 2013, it was unanimously agreed and resolved in writing by the shareholders of Chery Huiyin that Chery Automobile would transfer its 31% stake in Chery Huiyin to Chery Holding Co., Ltd. ("Chery Holding"). As of 30 June 2017, the shareholding structure of Chery Huiyin is as follows: the Bank contributed RMB200 million to the registered capital of Chery Huiyin, accounting for 20% of its shareholding; Chery Automobile contributed RMB490 million to the registered capital of Chery Huiyin, accounting for 49% of its shareholding; and Chery Holding contributed RMB310 million to the registered capital of Chery Huiyin, accounting for 31% of its shareholding.

In 2014, Chery Huiyin completed its shareholding restructuring, and on 30 September 2014, the company name was changed from "Chery Huiyin Motor Finance Service Limited" to "Chery Huiyin Motor Finance Service Co., Ltd". On 25 September 2014, the company's registered place was moved from Wanjiang Fortune Plaza, Jiujiang District, Wuhu City to Dianxin Avenue (Ankang Road) East, Shenxiang Town, Wuhu City, Anhui Province.

Approved by the CBRC, Chery Huiyin's principal businesses include: (1) accepting time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits for the purchase of vehicles from auto dealers and car rental deposits from lessees; (3) upon approval, issuing financial bonds; (4) engaging in inter-bank lending; (5) obtaining loans from financial institutions; (6) providing auto loans; (7) providing auto loans to auto dealers for the purchase of vehicles and loans for operating facilities, including showroom construction loans and spare parts and maintenance equipment loans; (8) providing auto financing and leasing businesses (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto financing lease receivables to financial institutions; (10) handling the sale and disposal of rental car for residual value; (11) engaging in consulting and agency businesses regarding auto financing; and (12) subject to approval, engaging in equity investment of financial institution regarding auto finance.

## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT

In the first half of 2017, the banking industry was faced with more complicated risk challenges due to the interweaving and overlapping of different types of risks under the complex and volatile domestic and international economic environments. The Bank continued to implement its “prudent, rational and stable” risk preference, improve its comprehensive risk management system and adhere to prudent operating philosophy so as to ensure the prudent business development and the objective classification of assets and maintain sufficient risk allowances and capital adequacy. The Bank upheld rational management philosophy and controlled major risks in a scientific and effective way under the mutual constraint of external regulation and internal standards, while sticking to the theory of “two wheels-driven growth”, namely business development and financial innovation. It adhered to stable operating philosophy, built a comprehensive risk management system that covers all employees and the entire procedure and strived to realize a balanced and coordinated development of scale, quality and efficiency on the presumption that risks are under control, so as to achieve the value of comprehensive risk management and the strategic goal of transformation and upgrading of the Bank.

#### 3.10.1 Credit Risk Management

Credit risk represents the risk of loss due to the default of the debtors or counterparties or the decrease of their credit ratings and performance capabilities. Credit risk is the major risk faced by the Bank at present, which mainly involves credit risk exposures on and off the balance sheet in relation to loans, peers, funds, guarantees and commitments, etc.

In the first half of 2017, guided by comprehensive risk management, the Bank focused on effectiveness and improved credit risk management. The Bank refined the layered risk policy system, formulated comprehensive risk management measures, risk preference, risk quota, impairment provision evaluation and other systems in order to form a transmission mechanism and implement the evaluation. It strictly controlled customer access, enhanced rating management, standardized credit rating, drew up the annual centralized rating plan, clarified work progress and put more efforts on random inspection. The Bank strengthened its risk alert and exit mechanism, and conducted key risk examination on loans associated with sensitive industries such as steel, coal and real estate. The Bank also strengthened its risk control over key fields, including real estate, over-capacity and emerging businesses, and strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on overcapacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. While focusing on maintaining asset quality, the Bank promoted the implementation of risk management and control policies through comprehensive risk examination and on-site inspection and supervision. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions including collection, write-off, restructuring and transfer of loans with potential risks on a “one-customer-one-policy” basis, with an aim to dispose of non-performing assets through different channels and ways and enhance the liquidity of inventory assets. During the Reporting Period, the Bank’s NPL balance had increased. However, through implementing a number of measures while reducing old loans and controlling new loans, the risk of decline in asset quality is effectively controlled. Please refer to Section 3.4 “Loan Quality Analysis” in this report for the distribution structure.



## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT (Continued)

#### 3.10.2 Market Risk Management

Market risk is the risk of loss in respect of the Bank's on and off-balance sheet activities that was caused by changes in interest rates, foreign exchange rates and other market factors. The market risk management of the Bank covers exchange rate risk and the interest risk of trading accounts.

In the first half of 2017, facing complex and dynamic external environment, the Bank strived to enhance market risk management tools and optimized market risk management processes in order to achieve better daily market risk management. The Bank carried out the reform and upgrade of market risk management system, optimized the yield curve and derivatives data and enhanced the efficiency of market risk indicator analysis and the effectiveness of data. The Bank adopted a variety of tools and methods such as cash flow analysis, sensitivity analysis and scenario analysis to conduct quantitative analysis on capital investment. The Bank enhanced market risk quota management, conducted stress test on interest rate risk of transaction accounts and further improved its capability in quantifying and managing market risk so as to effectively resolve market risk. The Bank insisted on optimizing procedures and innovating technologies. Under the comprehensive risk management framework, the Bank fully identified, accurately measured and constantly monitored market risks associated with its various businesses to control market risks within a reasonably tolerable range.

#### 3.10.3 Operational Risk Management

Operational risk refers to the risk of loss arising from deficient or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, IT systems fault and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine the operational risk management system and further strengthened its operational risk management. The Bank continued to promote the establishment of an operational risk management system, strengthened the construction of three major instruments for operational risk management, improved the key risk indicators of operational risk, and built an information system for operational risk management so as to enhance the informatization of operational risk management. The Bank also conducted a multi-dimensional risk assessment on institutions, business and customers, etc. in order to achieve the normalization of monitoring operational risk in credit business and other key areas. It sorted out a list of risk clients involving potential risks in other financial institutions by making greater use of external data such as the credit information of the PBOC and carried out risk examination and follow-up solutions so as to avoid risk contagion. The Bank collected major operational risk cases triggered by presidents of sub-branches in and outside the Bank regularly and gathered the data of operational risk losses in order to extract key risk indicators and incorporate into the monitoring system. The Bank also strengthened information technology risk management and focused on the implementation of drilling performance on significant IT systems fault and business continuity management so as to make the second-line defense of information technology risk function.

## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT (Continued)

#### 3.10.4 Liquidity Risk Management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Bank established the Risk Management Committee under the Board and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management to assume joint responsibility for establishing policies and strategies on overall liquidity risk management.

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

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

By closely monitoring macro-economic policies and capital market conditions, the Bank dynamically adjusts its liquidity management strategies and pace of capital operation in accordance with the Bank's assets and liabilities and liquidity position, effectively addressing the impact of periodic and seasonal factors on the Bank's liquidity and practically improving the Bank's ability to respond to liquidity risk. As of the end of the Reporting Period, the liquidity coverage ratio of the Bank was 102.54%, the qualified liquidity assets was RMB72.905 billion and net cash outflow in the next 30 days was RMB71.098 billion.

## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT (Continued)

#### 3.10.5 Interest Rate Risk Management

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

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

In the first half of 2017, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate the business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management with the aim of improving its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, optimized its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

#### 3.10.6 Exchange Rate Risk Management

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

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

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers. They are effected by way of "back-to-back" square trading that avoids exchange rate risk to a large extent. Under the new normal of bilateral exchange rate fluctuations of RMB, the Bank is required to maintain reasonable proprietary position exposures in line with the Bank's limit-based management within the limit of combined exposures approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilizes derivatives to prevent the risk of exchange rate fluctuations.

## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT (Continued)

#### 3.10.7 Reputational Risk Management

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

Reputational risk management is an important component of the corporate governance and the comprehensive risk management system, which covers all activities, operations and business scopes of the Bank and its subsidiaries. The Bank has established and formulated the reputational risk management system and relevant requirements to proactively and effectively prevent reputational risk and respond to any reputation events so as to mitigate loss and negative impact to the greatest extent. When managing reputational risk, the Bank prioritizes risk prevention and focuses on media monitoring, analysis and alert in its daily operation, which therefore achieves satisfactory effects. In addition, the Bank proactively conducts promotional activities and is capable of quickly and promptly addressing any information that may easily be misunderstood or misinterpreted by the public, thus establishing an effective management system. Meanwhile, the Bank actively participates in social public welfare undertakings and public activities, and assumes its corporate social responsibilities on a voluntary basis, with a view to striving to establish a healthy corporate image.

#### 3.10.8 Compliance Risk Management

Compliance risk refers to the risk that commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses or reputational damage as a result of any non-compliance with laws and regulations, rules and criteria. The Board of Directors of the Bank takes the ultimate responsibility for the compliance of the Bank's operation activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance of the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk, conducting regular assessment on compliance risk and submitting compliance risk reports to the Board of Directors. The Bank has established a robust compliance risk management system and organizational structure, forming three defense lines at front, middle and back offices interactive with each other, and the vertical double-line reporting system amongst the head office, branches and sub-branches. This enables the Bank to optimize its techniques and procedures for compliance risk management through the continuous improvement of the working mechanism concerning compliance risk management, which achieves an effective management of compliance risk.

During the Reporting Period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, and established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of an internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank launched special activities such as the "Looking back – Two Strengthenings, Two Restraints", the "Better Management Year", the "Identification of Non-performing Loan Liabilities" and the "Safe Finance" in depth to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

## Chapter III Management Discussion and Analysis

### 3.10 RISK MANAGEMENT (Continued)

#### 3.10.9 Anti-Money Laundering Management

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

During the Reporting Period, based on the changes of money laundering risks, the Bank optimized the withdrawal rules on unusual transactions, screened the list of clients under close watch, carried out effective inspection of money laundering risk and fortified the firewall against money laundering risk. The Bank also set up a sound and positive incentive mechanism of anti-money laundering, organized the election of the advanced units for anti-money laundering and fully mobilized and activated the enthusiasm, initiatives and creativity of its business lines, outlets and employees for anti-money laundering. Moreover, the Bank improved the risk indicator system of client's money laundering, followed qualitative and quantitative principles and dynamically adjusted the risk level of client's money laundering. Based on the suspicious transactions reported by its branches, the Bank strengthened its capability in collecting, analyzing and applying data and information in order to make timely risk alert. The Bank also launched anti-money laundering trainings through various channels at different levels to raise its staff's sense of duty on anti-money laundering, and nurture an anti-money laundering compliance environment.

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

#### 3.10.10 Implementation of the Basel Accord

The Bank is one of the earliest city commercial banks in China devoting itself to the implementation of the Basel New Capital Accord. With measurements of the three main risks under the first pillar as the main theme, the Bank gradually promoted the development and application of the advanced methods for capital measurement in accordance with the requirements of the "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulatory policies. Currently, the Bank has established non-retail and retail credit risk internal grading systems for customers and officially launched them successively. The non-retail credit risk internal grading system for debts has been completed for implementation and is being promoted across the Bank. Having completed the preliminary business consultation for the standards of operational risk management, the Bank is currently conducting the systematic implementation of such standards. The market risk internal modeling is in the argumentation and approval preparation stage.



## Chapter III Management Discussion and Analysis

### 3.11 INFORMATION TECHNOLOGY

During the Reporting Period, the Bank continued to improve the management of information technology, carry out the construction of information technology infrastructure, promote the level of information technology services, strengthen the safe operation of information technology, and support and promote the development of various businesses. Firstly, the Bank established a big-data department (a tier-two department) to cultivate the core competitiveness of information. The Bank actively used big data, optimized various information systems and business processes, built a unified product service system, and comprehensively enhanced the level of management and control in order to transform into an intelligent bank. Secondly, the Bank commenced the construction of a data center at the head office and implemented the construction of a monitoring alert system for operation of infrastructure for the purpose of providing a sound environment to bolster its business development. Thirdly, the Bank continued to develop an application system, and continued to carry out the application of new technologies and the construction of mobile finance, so as to provide customers with richer and practical financial services to enhance user experience and achieve customer growth. Fourthly, the Bank refined the operation and management, improved the maintenance and exercise of related disposal mechanisms and work processes, continued to strengthen the supervision over the operation of information systems to ensure the safe and stable operation of various types of information systems. Fifthly, the Bank strengthened the security management to guard against scientific and technological risks. The Bank carried out information technology security inspections, and promoted the implementation of safety management. The Bank also actively strengthened the promotion of education, commenced network security advertising, trainings for information safety and special trainings on techniques, so as to continually enhance the level of information technology safety management.

### 3.12 PROFIT DISTRIBUTION OF ORDINARY SHARES

#### Profit distribution plan for 2016

The profit distribution plan of the Bank for 2016 was considered and approved at the 2016 annual general meeting of the Bank held on 22 June 2017.

Audited net profit attributable to shareholders of the Bank in 2016 was RMB6,746 million. Pursuant to the Articles of Association of the Bank, the profit distribution plan of the Bank for 2016 is as follows:

- (1) 10% of the net profit of the Bank for 2016 (i.e. RMB675 million) was allocated to the statutory surplus reserve;
- (2) 10% of the net profit of the Bank for 2016 (i.e. RMB675 million) was allocated to the discretionary surplus reserve;
- (3) RMB1,430 million was allocated to the general risk provision;
- (4) cash dividend totalling RMB675 million (tax inclusive), i.e. RMB0.061 per share (tax inclusive) was declared and paid to all shareholders of the Bank.

The final dividend for 2016 is payable to the holders of Domestic Shares and H Shares whose names appear on the register of members of the Bank as of 4 July 2017 and has been paid on 18 August 2017. The dividend declared shall be denominated in RMB. The dividend payable to holders of Domestic Shares shall be paid in RMB whilst the dividend payable to holders of H Shares shall be paid in Hong Kong Dollars. The exchange rate of dividend payable in Hong Kong Dollars shall be the central parity rate of the average exchange rate of RMB to Hong Kong Dollars as announced by the PBOC for the five business days immediately prior to the date on which the dividend was declared at the 2016 annual general meeting of the Bank (i.e. 22 June 2017 (inclusive)).

## Chapter III Management Discussion and Analysis

### 3.12 PROFIT DISTRIBUTION OF ORDINARY SHARES (Continued)

#### Profit distribution for 2017 interim

The Bank has no profit distribution plan for 2017 interim.

### 3.13 SOCIAL RESPONSIBILITIES

In the first half of 2017, the Bank adhered to its mission of “commitment to civic responsibility” to serve the local economy. The Bank has been promoting the innovation of financial products to satisfy the various financial needs of its customers. In addition, the Bank continued to improve its customer service standard and customers’ experience and strived to create four financial service brands of “comprehensive finance, inclusive finance, intelligent finance and safe finance” under the guidance of the activities of “Year for Developing New Finance”. During the Reporting Period, the Bank took full advantage of its strengths in the regime, mechanism and system, especially the advantage as a first-class legal entity, to provide comprehensive financial services and increase effective investments to serve the real economy. The Bank continued to facilitate the establishment of pilot programs of inclusive financial system. The Bank actively explored a microcredit model to provide comprehensive professional financial services to micro, small and medium enterprises. The Bank continued to push forward traditional network intelligent improvements to develop a direct banking business and build a personal mobile financial service platform. The Bank also kept problem-oriented thinking, assigned responsibilities to dedicated persons and highlighted the key points that need extra attention, so as to strengthen proactive risk control and enhance its ability to tackle with risks. Moreover, the Bank sought to solve serious problems on the basis of the current situation and build its comprehensive risk management system from the long-term perspective, to ensure that the overall risks are within a controllable range and secure the Bank’s development through transformation and upgrade.

In the first half of 2017, the Bank earnestly implemented the poverty alleviation and development strategy for focusing on Jinzhai from Anhui Provincial CPC Committee and Provincial Government to treat supporting the development of Jinzhai as a political task. The Bank thoroughly carried out various measures to alleviate poverty, helped promote the comprehensive reform of rural finance in Jinzhai, actively innovated financial products, and fully increased credit availability to provide sound financial services for the economic development, business growth and financial needs of residents in Jinzhai, thus receiving wide recognition from customers and the local government.

At the same time, the Bank formulated the “Administrative Measures for Targeted Poverty Alleviation Microloans of Huishang Bank (for Trial Implementation)” according to the spirit of the relevant documents issued by the state, Anhui Province and regulatory departments in response to the call of the national targeted poverty alleviation policy, so as to give full play to the role of financial services in the process of targeted poverty alleviation. The administrative measures clarify that the Bank’s targeted poverty alleviation loan business shall follow the principle of “fulfilling the social responsibilities as the key role, with achieving economic benefits as the supporting role”, strengthen refinement, highlight the target and demonstrate the effectiveness of microcredit.



## Chapter IV Changes in Share Capital and Particulars of Shareholders

### 4.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	30 June 2017		Changes during the Reporting Period	31 December 2016	
	Number of Shares	Percentage (%)		Number of Shares	Number of Shares
Domestic Shares	7,887,319,283	71.38	–	7,887,319,283	71.38
H Shares	3,162,500,000	28.62	–	3,162,500,000	28.62
<b>Total number of ordinary shares</b>	<b>11,049,819,283</b>	<b>100.00</b>	–	11,049,819,283	100.00

Notes:

- (1) As of the end of the Reporting Period, the Bank had a total of 18,097 shareholders of ordinary shares, including 1,778 shareholders of H Shares and 16,319 shareholders of Domestic Shares.
- (2) Based on the disclosure of interests form of the Hong Kong Stock Exchange, other public information and relevant information available, as of 30 June 2017, the Bank's public float of H Shares was 19.68%, which was lower than the minimum requirement of 25% under Rule 8.08(1)(a) of the Hong Kong Listing Rules. Please refer to Section 7.9 "The Public Float of H Shares" of this report for details.

### 4.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

During the Reporting Period, the order of the top ten shareholders of the Bank was sorted by: (1) for the H Shares, the aggregate of the H Shares of the Bank held by investors which were deposited into the Central Clearing and Settlement System of the Hong Kong Stock Exchange and registered under the name of HKSCC NOMINEES LIMITED, a wholly-owned subsidiary of the Hong Kong Stock Exchange, representing 28.58% of the total share capital of ordinary shares and representing 99.87% of the total H Shares issued; and (2) for the Domestic Shares, the order was based on the number of shares held directly under the domestic shareholders register kept by China Securities Depository and Clearing Co., Ltd., and the shareholdings of related shareholders had not been consolidated for the purpose of calculation.

No.	Name of shareholder	Nature of shareholder	Shares held by the end of the period (share)	Percentage of total share capital of ordinary shares (%)	Type of share	Increase/decrease of shares during the Reporting Period (share)	Pledged or frozen (share)
1	HKSCC NOMINEES LIMITED <sup>(1)</sup>	–	3,158,265,980	28.58	H Share	212,000	–
2	Anhui Energy Group Co., Ltd.	State-owned legal person	766,694,381	6.94	Domestic Share	–	–
3	Anhui Credit Guaranty Group Co., Ltd.	State-owned legal person	752,416,446	6.81	Domestic Share	–	376,208,200
4	Anhui Guoyuan Holding (Group) Co., Ltd.	State-owned legal person	645,388,876	5.84	Domestic Share	–	–
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	469,032,613	4.24	Domestic Share	–	–
6	Zhongjing Sihai Co., Ltd.	Domestic non-state owned legal person	444,696,160	4.02	Domestic Share	–	151,366,700
7	Hefei Xingtai Financial Holding (Group) Co., Ltd.	State-owned legal person	343,591,483	3.11	Domestic Share	–	–
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	267,284,394	2.42	Domestic Share	–	–
9	CCB Trust Co., Ltd.	State-owned legal person	225,548,176	2.04	Domestic Share	–	–
10	Zhongjing Xinhua Asset Investment Management Company Ltd.	Domestic non-state owned legal person	204,346,570	1.85	Domestic Share	–	44,000,000

Notes:

- (1) HKSCC NOMINEES LIMITED is a wholly-owned subsidiary of the Hong Kong Stock Exchange. H Shares of the Bank held by investors can be deposited into the Central Clearing and Settlement System and registered under the name of HKSCC NOMINEES LIMITED.

## Chapter IV Changes in Share Capital and Particulars of Shareholders

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

As at 30 June 2017, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

Name of Substantial Shareholder	Type of share	Long/short Position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd. (安徽省能源集團有限公司)	H Share	Long	Interest of controlled corporation	300,145,000	9.49	2.72	1
	Domestic Share	Long	Interest of controlled corporation	10,000,000	0.13	0.09	
Xing An Holdings Co., Limited (興安控股有限公司)	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	
Anhui Credit Guaranty Group Co., Ltd. (安徽省信用擔保集團有限公司)	H Share	Long	Beneficial owner	300,145,000	9.49	2.72	1
	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Guoyuan Holding (Group) Co., Ltd. (安徽國元控股(集團)有限責任公司)	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	2
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Transportation Holding Group Co., Ltd. (安徽省交通控股集團有限公司)	H Share	Long	Interest of controlled corporation	4,327,000	0.14	0.04	3
	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.24	
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	4
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	511,140,000	16.16	4.63	4
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	372,846,000	11.79	3.37	4
Sunshine Insurance Group Corporation Limited (陽光保險集團股份有限公司)	H Share	Long	Interest of controlled corporation	543,722,000	17.19	4.92	5
Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司)	H Share	Long	Beneficial owner	543,722,000	17.19	4.92	5
Shanghai Soong Ching Ling Foundation (上海宋慶齡基金會)	H Share	Long	Interest of controlled corporation	987,820,000	31.24	8.94	8,9,10
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6,7
Zhongjing Industry (Group) Limited (中靜實業(集團)有限公司)	H Share	Long	Interest of controlled corporation	987,820,000	31.24	8.94	8,9,10
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6,7
Modern Innovation Holdings Co., Limited (現代創新控股有限公司)	H Share	Long	Interest of controlled corporation	987,820,000	31.24	8.94	8,9,10
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6,7
Jing'An Shanghai Silver Investment Co., Ltd. (上海中靜安銀投資有限公司)	H Share	Long	Interest of controlled corporation	987,820,000	31.24	8.94	8,9,10
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	6,7
Zhongjing Xinhua Asset Investment Management Company Ltd. (中靜新華資產管理有限公司)	H Share	Long	Interest of controlled corporation	987,820,000	31.24	8.94	8,9,10
	Domestic Share	Long	Interest of controlled corporation	444,696,160	5.64	4.02	7
	Domestic Share	Long	Beneficial owner	204,346,570	2.59	1.85	6
Zhongjing Sihai Co., Ltd. (中靜四海實業有限公司)	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	7
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited (中靜新華資產管理(香港)有限公司)	H Share	Long	Interest of controlled corporation	869,230,000	27.49	7.87	9,10
	H Share	Long	Beneficial owner	118,590,000	3.75	1.07	8
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
	H Share	Long	Beneficial owner	469,230,000	14.84	4.25	9
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Qingdao State-owned Assets Supervision and Administration Commission (青島市國有資產管理委員會)	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Qingdao City Construction Investment (Group) Limited (青島城市建設投資(集團)有限責任公司)	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Qingdao City Construction Financial Holding Group Co., Ltd. (青島城投金融控股集團有限公司)	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
China Golden Harbour (Holdings) Group (中國金港(控股)集團有限公司)	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Golden Harbour Global Holdings Limited (金港國際控股有限公司)	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	10
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	400,000,000	12.65	3.62	10

## Chapter IV Changes in Share Capital and Particulars of Shareholders

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

Notes:

- (1) Xing An Holdings Limited holds 300,145,000 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited. However, to the knowledge of the Bank and based on the confirmation of Anhui Energy Group Co., Ltd., Xing An Holdings Limited bought 6,709,000 H Shares (long position) through on exchange trading during the Reporting Period, which did not trigger the disclosure requirements under Part XV of the SFO. Therefore, no disclosure was made on the Hong Kong Stock Exchange. As such, as of 30 June 2017, Xing An Holdings Limited and its actual controller ultimately held interests in 300,145,000 H Shares (long position).

At the same time, Anhui Energy Group Co., Ltd. directly holds 766,694,381 Domestic Shares (long position) of the Bank. It also effectively controls 10,000,000 Domestic Shares of the Bank that were held by its controlling subsidiary, Anhui Province Wenergy Co., Ltd. (安徽省皖能股份有限公司). Pursuant to announcement of Anhui Province Wenergy Co., Ltd., the company completed all transfer formalities in relation to its purchase of 10,000,000 Domestic Shares of the Bank during the Reporting Period. As the purchase of shares did not trigger the disclosure requirements under Part XV of the SFO, no disclosure was made on the Hong Kong Stock Exchange.

- (2) The shareholdings of Anhui Guoyuan Holding (Group) Co., Ltd. include the Domestic Shares of the Bank held by its subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司), Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司).
- (3) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 4,327,000 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 469,032,613 Domestic Shares (long position) of the Bank.
- (4) China Vanke Co., Ltd. is deemed to hold interests in a total of 883,986,000 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:
- 4.1 Wkland Finance Holding Company Limited holds 511,140,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
- 4.2 Wkland Finance Holding II Company Limited holds 372,846,000 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
- (5) Sunshine Life Insurance Corporation Limited holds 543,722,000 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.
- (6) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 204,346,570 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). Zhongjing Industry is a subsidiary directly controlled by Shanghai Soong Ching Ling Foundation ("SCL Foundation"). As such, SCL Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.

## Chapter IV Changes in Share Capital and Particulars of Shareholders

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

Notes: (Continued)

- (7) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 444,696,160 Domestic Shares (long position) of the Bank. It is a subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.
- (8) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 118,590,000 H Shares (long position) of the Bank. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.
- (9) Wealth Honest Limited ("Wealth Honest") holds 469,230,000 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.
- (10) According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Golden Harbour Investments Management Limited ("Golden Harbour") and its affiliates, Golden Harbour acquired 400,000,000 H Shares of the Bank by way of off-exchange trading on 21 January 2017, among which the acquisition of 332,569,000 H Shares was completed on 2 March 2017. According to the email sent by Zhongjing Xinhua to the Bank on 9 February 2017, the vendor(s) undertook to appoint the person(s) designated by Golden Harbour as its (their) proxy to attend and vote at the general meeting(s) or class meeting(s) of the Bank in accordance with the instructions of Golden Harbour. As such, though the acquisition of the remaining 67,431,000 H Shares of the Bank has not been completed, Golden Harbour is deemed to be interested in such shares.

The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to the note (9) above. As such, the SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-Owned Assets Supervision & Administration Commission of Qingdao City and its subsidiaries, Wealth Honest Fund LP is held by Golden Harbour Global Holdings Limited as to 70%, which is in turn a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. Therefore, the State-Owned Assets Supervision & Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited are also deemed to be interested in the shares of the Bank held by Golden Harbour.

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



## Chapter IV Changes in Share Capital and Particulars of Shareholders

### 4.4 OTHER MATTERS

In recent information disclosures conducted by the Bank in accordance with the regulatory requirements, the Bank noticed that it was disclosed in the 2014, 2015 and 2016 annual audit reports of the SCL Foundation that it does not participate in the management of Zhongjing Industry, nor does it have significant influence or control over that company; and at the same time, according to the disclosures made by Zhongjing Xinhua (for the information on Zhongjing Xinhua, please refer to the note (6) under section 4.3 above) in its Prospectus of Public Issuance of 2016 Corporate Bonds (First Tranche), its Prospectus of Public Issuance of 2016 Corporate Bonds (Second Tranche), as well as its 2015 and 2016 corporate bonds annual reports, the SCL Foundation currently holds 97.5% equity interests in Zhongjing Industry and is the de facto controller of Zhongjing Xinhua.

### 4.5 PREFERENCE SHARES

#### 4.5.1 Issuance and listing of preference shares in the recent three years

On 10 November 2016, the Bank conducted a non-public offering of 44,400,000 Offshore Preference Shares in offshore markets at the issue price of US\$20 per share and raised US\$888 million. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of Offshore Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

#### 4.5.2 Number of preference shareholders and their shareholdings

As at the end of the Reporting Period, the Bank recorded one preference shareholder (or depository). Particulars of its shareholding were as follows:

Name of preference shareholder	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Offshore Preference Shares	-	100	44,400,000	-	Unknown

Note:

- Particulars of shareholding of the preference shareholders are based on the information in the Bank's register of preference shareholders.
- As the issuance was an offshore non-public offering, the register of preference shareholders presented the shareholding information of DB Nominees (Hong Kong) Limited as the depository of the preference shareholders in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. at the end of the Reporting Period.

#### 4.5.3 Profit distribution of preference shares

During the Reporting Period, there was no dividend payment in respect of preference shares. Further announcement(s) in respect of payment of dividends on preference shares will be made by the Bank as and when appropriate.

## **Chapter IV Changes in Share Capital and Particulars of Shareholders**

### **4.5 PREFERENCE SHARES (Continued)**

#### **4.5.4 Redemption or conversion of preference shares**

During the Reporting Period, there was no redemption or conversion of preference shares issued by the Bank.

#### **4.5.5 Restoration of voting rights of preference shares**

During the Reporting Period, there was no restoration of voting rights of preference shares issued by the Bank.

#### **4.5.6 Accounting policy adopted for preference shares and grounds**

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing preference shares of the Bank conform to the accounting requirements as equity instruments, and will be calculated as equity instruments.

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

### 5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Position Held
Li Hongming	Male	Chairman, Executive Director
Wu Xuemin	Male	President, Executive Director
Ci Yaping	Male	Vice President, Executive Director
Zhang Feifei	Male	Non-Executive Director
Zhu Jiusheng	Male	Non-Executive Director
Qian Li	Male	Non-Executive Director
Lu Hui	Female	Non-Executive Director
Zhao Zongren	Male	Non-Executive Director
Qiao Chuanfu	Male	Non-Executive Director
Gao Yang	Male	Non-Executive Director
Dai Genyou	Male	Independent Non-Executive Director
Wang Shihao <sup>(1)</sup>	Male	Independent Non-Executive Director
Zhang Shenghuai	Male	Independent Non-Executive Director
Au Ngai, Daniel	Male	Independent Non-Executive Director
Zhu Hongjun <sup>(1)</sup>	Male	Independent Non-Executive Director
Zhang Renfu	Male	Chairman of the Board of Supervisors, Employee Supervisor
Xu Chongding	Male	Chairman of Labor Union, Employee Supervisor
Zhou Tong	Female	General Manager of Compliance Department, Employee Supervisor
Cheng Rulin	Male	Shareholder Supervisor
Qian Xiaojun	Male	Shareholder Supervisor
Li Ruifeng <sup>(2)</sup>	Male	Shareholder Supervisor
Cheng Junpei	Female	External Supervisor
Pan Shujuan	Female	External Supervisor
Yang Mianzhi <sup>(2)</sup>	Male	External Supervisor
Gao Guangcheng	Male	Vice President
Zhang Youqi	Male	Vice President
Sheng Hongqing	Male	Assistant to President, Chief Investment Officer
Yi Feng	Male	Assistant to President, Secretary to the Board of Directors
Xia Min	Male	Assistant to President, President of Hefei Branch
Chen Hao	Male	Chief Information Officer

Notes:

- (1) Mr. Wang Shihao and Mr. Zhu Hongjun tendered their resignations to the Bank on 16 December 2015 and 7 April 2016, respectively, as the independent non-executive directors of the Bank and their positions in various Board committees. Their resignations will take effect on the date upon the formal appointment of the succeeding independent non-executive directors by the Bank.
- (2) For details of the position changes of Mr. Li Ruifeng and Mr. Yang Mianzhi, please refer to Section 5.2 "Appointment and Resignation during the Reporting Period" of this report for details.



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

### 5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

1. The Bank announced on 23 May 2016 that, due to his desire to devote more time to other business commitments, Mr. Fung Weichang, an independent non-executive director of the Bank, tendered his resignation as an independent non-executive director, member of the strategic development committee and member of the nomination and remuneration committee of the Bank. His resignation originally took effect from the date of formal appointment of his succeeding independent non-executive director by the Bank. The Bank announced on 20 March 2017 that Mr. Fung proposed to the Board that he would like his resignation to take effect as soon as possible. Therefore, he ceased to act as an independent non-executive director, member of the strategic development committee and member of the nomination and remuneration committee of the Bank, with effect from 20 March 2017.
2. Due to his desire to devote more time to other business commitments, Mr. Yan Dongshun, an assistant to the president and the president of Nanjing Branch of the Bank, tendered his resignation on 13 February 2017 as an assistant to the president and the president of Nanjing Branch of the Bank with immediate effect.
3. The Bank announced on 1 March 2017 that, due to reaching her retirement age, Ms. Xu Demei, an executive director of the Bank, tendered her resignation on the date of the announcement as the vice chairman and an executive director, and a member of the related party transaction control committee and the risk management committee of the Bank with immediate effect.
4. The Bank announced on 22 June 2017 that, Mr. Yang Mianzhi and Mr. Li Ruifeng were elected as an external supervisor and a shareholder supervisor of the Bank at the 2016 annual general meeting, respectively, with a term of office which is the same as the term of the third session of the Board of Supervisors of the Bank and will commence from the date of approval by the 2016 annual general meeting until the date of completion of the re-election of the Board of Supervisors.
5. The Bank announced on 9 November 2015 that, Mr. Fan Libo tendered his resignation as an external supervisor of the Bank as he wished to devote more time to other commitments. His resignation took effect from 22 June 2017, the date on which the Bank officially appointed Mr. Yang Mianzhi as his succeeding external supervisor.

### 5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

1. Mr. Wu Xuemin, the president and an executive director of the Bank currently acts as the chairman of Huiyin Financial Leasing Co., Ltd. (徽銀金融租賃有限公司).
2. Mr. Zhang Feifei, a non-executive director of the Bank, ceased to be a director of Xing An Holdings Limited (興安控股有限公司).
3. Mr. Zhang Shenghuai, an independent non-executive director of the Bank ceased to be an independent director of Beijing Trust & Far Technology Co., Ltd. (北京銀信長遠科技股份有限公司).
4. Ms. Cheng Junpei, an external supervisor of the Bank, ceased to be the vice president of New Peak Group (崗嶺集團) and CEO of No.1 Pharmacy Mall (1號藥城); she currently is the investment partner of Sinopharm Capital Management Company Limited (國藥資本管理有限公司) and a director of Sinopharm Shengkang Medicine Holdings Limited (國藥聖康醫藥有限公司).

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of directors or supervisors which required to be disclosed pursuant to the requirements of the Rule of 13.51B(1) of the Hong Kong Listing Rules.

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

### 5.4 EMPLOYEES

#### 1. Size and Changes

As of 30 June 2017, the Bank had a total of 9,089 employees in service.

#### 2. Professional Structure

As of 30 June 2017, the professional structure of the Bank is as follows:

Categories	As of 30 June 2017	
	Number of employees	Percentage of the total
Management Personnel	2,033	22.37%
Business Personnel	5,206	57.28%
Supporting Personnel	1,850	20.35%
<b>Total</b>	<b>9,089</b>	<b>100.00%</b>

#### 3. Educational Structure

	As of 30 June 2017	
	Number of employees	Percentage of the total
Master's degrees or above	1,269	13.96%
Full-time bachelor's degrees	4,414	48.56%
Part-time bachelor's degrees	2,401	26.42%
Junior college degrees or below	1,005	11.06%
<b>Total</b>	<b>9,089</b>	<b>100.00%</b>

#### 4. Age Structure

	As of 30 June 2017	
	Number of employees	Percentage of the total
Aged below 30 (inclusive)	4,681	51.50%
Aged 31-40	2,254	24.80%
Aged 41-50	1,801	19.82%
Aged above 50	353	3.88%
<b>Total</b>	<b>9,089</b>	<b>100.00%</b>

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

### **5.4 EMPLOYEES (Continued)**

#### **Staff Remuneration Policy**

The Bank's remuneration policy aims to establish a well-developed, scientific and effective incentive and control mechanism for realization of shareholders value and optimization of the Bank's efficiency and employees' interests. The policy facilitates stable operation and sustainable development of the Bank, which is therefore conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. By following the principle of being "advanced, sustainable, compliant, timely, and operational", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

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

#### **Staff Training Plan**

According to the development strategies and education and training development plans, the Bank develops and implements an annual training plan to provide guarantees for staff professionalism enhancement and their career development, and to provide support in terms of intelligence for the continuous promotion of the transformation and upgrades and sustainable development strategies of the Bank. During the Reporting Period, the Bank organized and provided special trainings on "Developing New Finance" for management at different levels, training classes for various business lines, as well as the construction of internal trainer teams by making use of three training channels, namely, the Binhu training center of Huishang Bank, the online training platform "Huiyin Internet School", and the mobile learning platform "Huiyin Academy". The Bank commenced the establishment of a training curriculum system and arranged for qualification tests for all positions in the Bank to further increase the proportion of all employees of the Bank possessing certificates for their positions. In the first half of 2017, the Bank conducted training for a total enrolment of 26,016 persons with a total of 212,317 hours.

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

### 5.5 COMPOSITION OF BRANCHES

Set out below are details of the branches of the Bank in the PRC as of 30 June 2017:

Region	Name of the Institution	Business Address	Postal Code	Number of Institutions
Head Office	Head Office	Huishang Bank Building, No. 79, Anqing Road, Luyang District, Hefei, Anhui Province	230001	1
Anhui Province	Hefei Branch	No. 235, Anqing Road, Hefei	230001	87
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	36
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	24
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	23
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	28
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	15
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	26
	Huangshan Branch	No. 2, Tunguang Road, Tunxi District, Huangshan	245000	13
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	12
	Chuzhou Branch	No. 95, Longpan Road, Chuzhou	239000	14
	Suzhou Branch	No. 123, Yinhe Yi Road, Suzhou	234000	15
Xuancheng Branch	No.1, West Aofeng Road, Xuancheng	242000	18	
Jiangsu Province	Bozhou Branch	No. 277, Plaza Xiangzhang, West Shaohua Road, Bozhou	236000	12
	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	11
<b>Total</b>				<b>420</b>

## **Chapter VI Corporate Governance**

### **6.1 OVERVIEW OF CORPORATE GOVERNANCE**

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

During the Reporting Period, the general meetings, the Board of Directors, the Board of Supervisors and the committees of the Board of Directors and the Board of Supervisors played their corresponding roles and operated effectively so as to ensure the compliant operation and the steady healthy development of the Bank. During the Reporting Period, the Bank convened a total of 19 meetings, which consists of one general meeting, three Board of Directors meetings, eight Board of Directors committees meetings, three Board of Supervisors meetings, two meetings of the Supervisory Committee under the Board of Supervisors and two meetings of the Nomination Committee under the Board of Supervisors.

### **6.2 GENERAL MEETINGS**

During the Reporting Period, the Bank held one general meeting. On 22 June 2017, the Bank held the 2016 annual general meeting in Hefei City, Anhui Province. The notification, convening, holding and voting procedures of the meetings are in compliance with the Company Law of the PRC, the Articles of Association of the Bank and the Hong Kong Listing Rules. For the details of the resolutions, please see the announcement of poll results of the annual general meeting dated 22 June 2017, which was published on the respective websites of the Hong Kong Stock Exchange and the Bank.

### **6.3 BOARD OF DIRECTORS AND BOARD OF DIRECTORS COMMITTEES MEETINGS**

During the Reporting Period, the Bank held three Board of Directors meetings, at which 34 resolutions were considered and approved. The Bank held eight Board of Directors committees meetings (which consists of one Nomination and Remuneration Committee meeting, two Strategic Development Committee meetings, two Risk Management Committee meetings, two Related Party Transaction Control Committee meetings and one Audit Committee meeting) at which 47 resolutions were studied and considered.

### **6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS**

During the Reporting Period, the Bank held three Board of Supervisors meetings, at which 19 resolutions were considered.

The Bank held two meetings of the Supervisory Committee under the Board of Supervisors, at which 11 resolutions were considered. The Bank held two meetings of the Nomination Committee under the Board of Supervisors, at which 9 resolutions were considered.

## Chapter VI Corporate Governance

### 6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Bank (including their spouses and children) in respect of their dealings in the Bank’s securities.

Having made specific enquiries to all the directors and supervisors, the Bank confirmed that they had complied with the Model Code throughout the six months ended 30 June 2017.

### 6.6 INTERNAL CONTROL

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

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board and senior management to establish and improve the internal control system; and overseeing the Board and its directors, senior management and senior officers to perform their duty of internal control. Senior management is responsible for the execution of internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and checks the effectiveness of internal control.

During the Reporting Period, the Bank organized special campaigns including the “Corporate Governance Enhancing Year” special event, the annual case prevention work assessment for 2016, compliance risk management and assessment for 2016 and anti-money laundering assessment for 2016, and coordinated with CBRC Anhui Office to carry out special inspection on the implementation of the commitment to risk control by the Board of Directors, the Board of Supervisors and Senior Management so as to further improve market risk, credit risk and operational risk management system. Therefore, the internal control system operated effectively. In addition, the Bank has conducted assessments of the internal control on all management departments and offices of the head office and branches, as well as sub-branches in 2016. After the inspection by the Board of Directors of the Bank, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were found.



## Chapter VI Corporate Governance

### 6.7 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank has applied the principles of the Corporate Governance Code (“CG Code”) set out in Appendix 14 to the Hong Kong Listing Rules. Except for paragraphs A.4.2 and A.5.1 of the CG Code, the Bank has strictly complied with the code provisions of the CG Code. The Bank has also complied with most of the recommended best practices set out therein. According to paragraph A.4.2 of the CG Code, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The term of the third session of the Board of Directors, Board of Supervisors and senior management of the Bank is three years, which expired on 10 July 2016. As, among others, nomination process for some of the directors to be nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not accomplish the re-election of the Board of Directors before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management shall continue to perform their respective duties until the re-election work is completed. In addition, according to the requirements of Rule 3.25 of the Hong Kong Listing Rules and the paragraph of A.5.1 of the CG Code, a majority of membership of the Nomination and Remuneration Committee of the Bank are independent non-executive directors. Since Mr. Fung Weichang ceased to be an independent non-executive director, a member of the Strategic Development Committee and a member of the Nomination and Remuneration Committee of the Bank from 20 March 2017, the Nomination and Remuneration Committee of the Bank currently comprises of six members, among which, three are independent non-executive directors. This does not comply with requirements of Rule 3.25 of the Hong Kong Listing Rules and paragraph A.5.1 of the CG Code. The Board is still in the process of identifying a suitable candidate to fill the relevant vacancy so as to comply with the Hong Kong Listing Rules and the CG Code as soon as practicable.

## Chapter VII Significant Events

### 7.1 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank did not hold or trade shares of other listed companies during the Reporting Period.

### 7.2 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE BANK

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

### 7.3 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2017, the directors, supervisors and chief executives of the Bank and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code:

Name	Position	Type of shares	Capacity	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued ordinary shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei <sup>(1)</sup>	Former Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
Zhou Tong	Supervisor	Domestic Shares	Beneficial Owner	167,974	0.0021	0.0015
Yang Mianzhi <sup>(1)</sup>	Supervisor	Domestic Shares	Beneficial Owner	6,012	–	–

Note:

- (1) For details of the position changes of Ms. Xu Demei and Mr. Yang Mianzhi, please refer to “Appointment and Resignation during the Reporting Period” under section 5.2 of this report.

Save as disclosed above, as at 30 June 2017, the Bank was not aware that any of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

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

There were no investigation or significant penalty imposed on the Bank, its directors, supervisors and senior management of the Bank during the Reporting Period.

## Chapter VII Significant Events

### 7.5 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in the PRC, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, the connected transactions between the Bank and connected persons were conducted in compliance with the normal commercial terms that were not more favourable than those for non-connected transactions of the same types. The transaction terms were fair and reasonable and in line with the interests of the Bank and its shareholders as a whole. All these transactions were made on normal commercial terms and in the ordinary course of business, and were exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

The Bank takes deposit from its connected persons (including directors, supervisors and/or their respective associates) in the ordinary course of business under normal deposits interest rate and normal commercial terms. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules, namely, financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms (or better to the issuer) where no security over the assets of the issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

The Bank extends loans and credit facilities to its connected persons (including directors, supervisors and/or their respective associates) in the ordinary course of business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank offers loans and credit facilities to its connected persons in the ordinary course of business, on normal commercial terms and comparable terms offered to independent third parties. Therefore, these transactions will constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business for the benefit of a connected person on normal commercial terms, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## Chapter VII Significant Events

### 7.5 CONTINUING CONNECTED TRANSACTIONS (Continued)

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

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) to its connected persons (including directors, supervisors and/or their respective associates) in the ordinary course of business at normal prescription fees, service fees and charges and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

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

### 7.6 MATERIAL LITIGATIONS AND ARBITRATIONS

To the knowledge of the Bank, as of 30 June 2017, the Bank was involved in the following litigation cases in its ordinary course of business: there are 47 pending litigation and arbitration cases with a total principal amount of RMB1,799 million, including eight cases (litigations and arbitrations) against the Bank where final judgment has not been obtained, with a total principal amount of RMB575 million. The Bank made full provision for allowances for doubtful accounts of loans involved in the above cases according to their expected losses in a prudent manner. None of these cases will have any material adverse effect on the Bank's financial position and operating results.

### 7.7 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

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

### 7.8 APPLICATION FOR LISTING OF A SHARES

The 2014 annual general meeting of the Bank was convened by the Bank on 29 May 2015, at which, among others, the proposal for initial public offering of A shares was considered and approved. The Bank proposed to issue no more than 1,228 million A shares. The matters in relation to the proposed issuance of A shares are set out in the circular dated 13 May 2015 and the announcement dated 29 May 2015 of the Bank. The Bank submitted application materials, including the A share prospectus, to the CSRC on 18 June 2015 and the CSRC accepted the application. The A share prospectus was published on the CSRC website ([www.csrc.gov.cn](http://www.csrc.gov.cn)) on 3 July 2015, and on the HKExnews website of Hong Kong Exchanges and Clearing Limited on the same day according to Rule 13.10B of the Hong Kong Listing Rules.

## Chapter VII Significant Events

### 7.8 APPLICATION FOR LISTING OF A SHARES (Continued)

The relevant resolutions in respect of the A share offering plan and the authorization granted to the Board of Directors to deal with specific matters related to the A share offering were approved by the shareholders at the 2015 and 2016 annual general meetings of the Bank, agreeing to extend the valid period of such resolutions. Currently, the valid period of such resolutions has been extended to 27 May 2018.

The Bank submitted application materials including the updated A share prospectus containing the financial data for the twelve months ended 31 December 2016, to the CSRC on 31 March 2017.

As further negotiations with some of the Bank's directors and shareholders on certain matters stipulated by relevant laws and regulations and requests of the CSRC, are needed and considering that the tenure of service of the Bank's former auditors reached the maximum time limit and a replacement was needed, on 23 March 2017, the Board of Directors of the Bank passed a resolution to apply to the CSRC to suspend the review process of the A share offering. The Bank submitted an application to the CSRC for the suspension of the review process of the A share offering on 27 March 2017. Such application was approved by the CSRC on 13 April 2017. For the details, please refer to the announcements of the Bank dated 27 March 2017 and 18 April 2017.

Currently, the Bank is still actively updating all documents needed to be filed in connection with the A share offering and communicating and coordinating with the CSRC and the sponsors. An application will be made to the CSRC for the resumption of the review process of the A share offering at the earliest possible time as and when appropriate.

### 7.9 THE PUBLIC FLOAT OF H SHARES

During the Reporting Period, the public float of the Bank's H Shares has been continuously below the minimum of 25% as required under Rule 8.08(1)(a) of the Hong Kong Listing Rules. As at the Latest Practicable Date, the public float of the Bank's H Shares was 19.68%.

The public float of the Bank is continuously lower than the minimum level as required, which was due to the continuous increase in the shareholding of the Bank's H Shares by the substantial shareholders of the Bank. According to the disclosure of interests forms submitted by the SCL Foundation and its affiliates, other public information and relevant information available, as at the Latest Practicable Date, Zhongjing Xinhua, Zhongjing Sihai, Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour directly held 204,346,570 Domestic Shares, 444,696,160 Domestic Shares, 118,590,000 H Shares, 469,230,000 H Shares and 332,569,000 H Shares of the Bank, respectively. Zhongjing Sihai, Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour are subsidiaries of Zhongjing Xinhua. According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the SCL Foundation and its affiliates, other public information and relevant information available, Zhongjing Xinhua, Zhongjing Sihai, Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour are all corporations controlled by the SCL Foundation. As such, the SCL Foundation is deemed to be interested in the shares of the Bank held by the above-mentioned companies, holding in aggregate of 10% or above of the total issued ordinary shares of the Bank. The SCL Foundation and the above-mentioned companies are thus core connected persons of the Bank, and the H Shares of the Bank held by them are not considered to be held by the public.

## Chapter VII Significant Events

### 7.9 THE PUBLIC FLOAT OF H SHARES (Continued)

Furthermore, according to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Golden Harbour and its affiliates on 25 January 2017 and 7 March 2017, Golden Harbour acquired 400,000,000 H Shares of the Bank by way of off-exchange trading on 21 January 2017, among which the acquisition of 332,569,000 H Shares was completed on 2 March 2017. As at the Latest Practicable Date, the Bank had not obtained any information indicating that the acquisition of the remaining 67,431,000 H Shares of the Bank had been completed. However, according to the email from Zhongjing Xinhua, the vendor(s) undertook to appoint the person(s) designated by Golden Harbour as its (their) proxy to attend and vote at the general meeting(s) or class meeting(s) of the Bank in accordance with the instructions of Golden Harbour during the period from the date of the share sale and purchase agreement being signed to the date of completion. Accordingly, these 67,431,000 H Shares of the Bank are also considered not to be held by the public under Rule 8.24 of the Hong Kong Listing Rules.

For details of the changes in the public float of the Bank, please refer to the announcements of the Bank dated 11 May 2016, 19 May 2016, 21 June 2016, 1 August 2016, 30 August 2016, 30 September 2016, 31 October 2016, 30 November 2016, 3 January 2017, 16 March 2017, 28 April 2017, 31 May 2017, 27 June 2017 and 31 July 2017.

The Bank is currently considering various options so as to restore its public float as soon as practicable, including (i) continuing to promote the initial public offering and the listing of A shares; (ii) contacting the substantial shareholders of the Bank and suggesting them to place down their shares in the Bank as soon as practicable; and (iii) seeking opportunities to conduct placing of H Shares after considering the market conditions in full and with detailed planning.

### 7.10 REVIEW ON INTERIM RESULTS

Ernst & Young, as the external auditor of the Bank, has reviewed the interim financial report (unaudited) of the Bank as prepared in accordance with the International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Bank has also reviewed and approved the interim results and financial report of the Bank for the six months ended 30 June 2017.

### 7.11 PUBLICATION OF INTERIM REPORT

The Bank has prepared its interim report under the International Financial Reporting Standards and the Hong Kong Listing Rules in both Chinese and English versions, which are available on the HKExnews website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Bank at [www.hsbank.com.cn](http://www.hsbank.com.cn).

In this Interim Report, the financial data for the six months ended 30 June 2016 and 2017 have not been audited; and the financial data for the year ended 31 December 2016 have been audited.



## **Chapter VIII Interim Financial Report Report On Review Of Interim Financial Information**



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

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 73 to 176, which comprises the interim condensed consolidated statement of financial position of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

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

### **CONCLUSION**

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

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong, 25 August 2017

## Unaudited Condensed Consolidated Statement of Comprehensive Income

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

	Note	Six months ended 30 June	
		2017	2016
Interest income	6	18,117,209	15,964,161
Interest expense	6	(8,542,100)	(7,060,527)
<b>Net interest income</b>		<b>9,575,109</b>	8,903,634
Fee and commission income	7	1,562,550	1,311,873
Fee and commission expense	7	(92,802)	(54,274)
<b>Net fee and commission income</b>		<b>1,469,748</b>	1,257,599
Net trading losses	8	(120,873)	(11,616)
Net losses on investment securities		(39,884)	(16,690)
Other operating income, net	9	(69,263)	33,740
<b>Operating income</b>		<b>10,814,837</b>	10,166,667
Operating expenses	10	(2,543,043)	(2,758,943)
Impairment losses on assets	12	(3,482,035)	(3,125,180)
<b>Operating profit</b>		<b>4,789,759</b>	4,282,544
Share of profits of associates		74,784	80,711
<b>Profit before income tax</b>		<b>4,864,543</b>	4,363,255
Income tax expense	13	(963,301)	(918,447)
<b>Profit for the period</b>		<b>3,901,242</b>	3,444,808
<b>Other comprehensive income</b>			
Fair value changes on available-for-sale financial assets	42	(425,185)	(87,596)
Less: related income tax impact	42	106,296	21,899
<b>Other comprehensive income for the period, net of tax</b>		<b>(318,889)</b>	(65,697)
<b>Comprehensive income for the period</b>		<b>3,582,353</b>	3,379,111
Net profit attributable to:			
Shareholders of the Bank		3,780,300	3,408,204
Non-controlling interests		120,942	36,604
		<b>3,901,242</b>	3,444,808
Total comprehensive income attributable to:			
Shareholders of the Bank		3,461,411	3,342,507
Non-controlling interests		120,942	36,604
		<b>3,582,353</b>	3,379,111
Earnings per share attributable to the shareholders of the Bank (express in RMB per share)			
<b>Basic/Diluted</b>	14	<b>0.34</b>	0.31

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

## Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2017

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

	Note	As at 30 June 2017	As at 31 December 2016
<b>Assets</b>			
Cash and balances with central bank	15	85,483,361	88,059,360
Deposits with banks and other financial institutions	16	10,115,869	10,960,598
Placements with banks and other financial institutions	17	7,090,159	19,319,720
Financial assets at fair value through profit or loss	18	8,500,943	5,742,117
Derivative financial assets	19	41,160	385,977
Financial assets held under resale agreements	20	4,933,003	516,183
Loans and advances to customers	21	287,326,702	269,336,141
Investment securities			
– available-for-sale	22	124,562,671	120,384,390
– held-to-maturity	22	55,703,052	52,351,451
– Debt instruments classified as receivables	22	192,455,588	159,671,108
Investment in associates	23	604,699	538,646
Property, plant and equipment	24	1,705,153	1,719,242
Deferred tax assets	34	3,119,330	2,309,106
Finance lease receivables	25	22,856,495	18,199,109
Other assets	26	8,180,149	5,280,846
<b>Total assets</b>		<b>812,678,334</b>	<b>754,773,994</b>
<b>Liabilities</b>			
Borrowing from central bank		–	5,000
Deposits from banks and other financial institutions	28	76,622,625	83,216,302
Placements from banks and other financial institutions	29	20,425,081	15,352,085
Derivative financial liabilities	19	131,934	4,643
Financial assets sold under repurchase agreements	30	27,502,992	32,619,242
Deposits from customers	31	511,079,987	462,014,409
Taxes payable	32	1,302,249	1,559,261
Debt securities issued	35	98,092,266	91,505,250
Other liabilities	33	21,429,568	15,314,484
<b>Total liabilities</b>		<b>756,586,702</b>	<b>701,590,676</b>
<b>Equity</b>			
Share capital	36	11,049,819	11,049,819
Other equity instruments	36	5,990,090	5,990,090
Capital reserve	36	6,751,041	6,751,041
Surplus reserve	37	7,210,939	6,536,297
General reserve	37	7,722,378	6,208,315
Investment revaluation reserve	42	(439,636)	(120,747)
Retained earnings		16,374,142	15,456,586
Equity attributable to shareholders of the Bank		54,658,773	51,871,401
Non-controlling interests		1,432,859	1,311,917
<b>Total equity</b>		<b>56,091,632</b>	<b>53,183,318</b>
<b>Total equity and liabilities</b>		<b>812,678,334</b>	<b>754,773,994</b>

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

Approved and authorized for issue by the Board of Directors on 25 August 2017.

**Li Hongming**

Chairman

**Wu Xuemin**

President

**Sheng Hongqing**

Assistant President

**Li Dawei**

Head of Finance Department

## Unaudited Condensed Consolidated Statement of Changes in Equity

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

	Equity attributable to shareholders of the Bank								Total equity
	Share capital Note 36	Other equity instruments Note 36	Capital reserve Note 37	Surplus Reserve Note 37	General reserve Note 42	Investment revaluation reserve	Retained earnings	Non-controlling interests	
<b>As at 1 January 2017</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>6,536,297</b>	<b>6,208,315</b>	<b>(120,747)</b>	<b>15,456,586</b>	<b>1,311,917</b>	<b>53,183,318</b>
<b>(1) Comprehensive income</b>									
Profit for the period	-	-	-	-	-	-	3,780,300	120,942	3,901,242
Other comprehensive income, net of tax	-	-	-	-	-	(318,889)	-	-	(318,889)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(318,889)</b>	<b>3,780,300</b>	<b>120,942</b>	<b>3,582,353</b>
<b>(2) Changes in share capital</b>									
<b>(3) Profit distribution</b>									
Dividends	-	-	-	-	-	-	(674,039)	-	(674,039)
Appropriation to surplus reserve	-	-	-	674,642	-	-	(674,642)	-	-
Appropriation to general reserve	-	-	-	-	1,514,063	-	(1,514,063)	-	-
<b>As at 30 June 2017</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>7,210,939</b>	<b>7,722,378</b>	<b>(439,636)</b>	<b>16,374,142</b>	<b>1,432,859</b>	<b>56,091,632</b>
<b>As at 1 January 2016</b>	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,121,389	1,186,117	42,345,261
<b>(1) Comprehensive income</b>									
Profit for the period	-	-	-	-	-	-	6,870,472	125,800	6,996,272
Other comprehensive income, net of tax	-	-	-	-	-	(391,383)	-	-	(391,383)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(391,383)</b>	<b>6,870,472</b>	<b>125,800</b>	<b>6,604,889</b>
<b>(2) Changes in share capital</b>									
Other equity instruments issued	-	5,990,090	-	-	-	-	-	-	5,990,090
<b>(3) Profit distribution</b>									
Dividends	-	-	-	-	-	-	(1,756,922)	-	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-	-
Appropriation to general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-	-
<b>As at 31 December 2016</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>6,536,297</b>	<b>6,208,315</b>	<b>(120,747)</b>	<b>15,456,586</b>	<b>1,311,917</b>	<b>53,183,318</b>

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

## Unaudited Condensed Consolidated Statement of Cash Flows

For the year ended 30 June 2017

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

	Six months ended 30 June	
	2017	2016
<b>Cash flows from operating activities:</b>		
Profit before income tax	4,864,543	4,363,255
Adjustments:		
Impairment losses on assets	3,482,035	3,125,180
Recovery of written-off loans	220,963	22,467
Depreciation and amortization	213,468	182,459
Net (gains)/losses on disposals of property, plant and equipment	(9,784)	43
Net losses on de-recognition of investment securities	39,884	16,690
Fair value changes in financial assets at fair value through profit or loss and derivatives	456,053	9,116
Share of results of associates	(74,784)	(80,711)
Interest income from investment securities	(9,522,790)	(7,427,647)
Interest expense from debt securities issued	2,004,929	1,668,970
<b>Net changes in operating assets:</b>		
Net decrease/(increase) in balances with the central bank	910,452	(6,038,338)
Net decrease in deposits and placements with banks and other financial institutions	6,843,790	2,506,964
Net increase in financial assets at fair value through profit or loss	(2,742,771)	(1,598,196)
Net decrease/(increase) in financial assets held under resale agreements	(4,416,820)	37,810,575
Net increase in loans and advances to customers	(22,081,161)	(12,493,651)
Net increase in finance lease receivables	(4,770,734)	(6,866,540)
Net (increase)/decrease in other assets	(3,725,017)	8,035,529
<b>Net changes in operating liabilities:</b>		
Net decrease/(increase) in deposits and placements from banks and other financial institutions	(1,520,681)	6,873,484
Net decrease in borrowing from central bank	(5,000)	-
Net decrease in financial assets sold under repurchase agreements	(5,116,250)	(31,083,181)
Net increase in deposits from customers	49,065,579	72,839,963
Net increase/(decrease) in other liabilities	6,198,925	(8,273,110)
Income taxes paid	(2,192,466)	(1,609,431)
<b>Net cash inflow from operating activities</b>	<b>18,122,363</b>	<b>61,983,890</b>

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

## Unaudited Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 June	
	2017	2016
<b>Cash flows from investing activities:</b>		
Dividends received	8,731	–
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	35,141	1,236
Purchase of property, plant and equipment, intangible assets and other long-term assets	(185,688)	(209,776)
Cash received from investment securities interest income	9,510,982	6,874,637
Cash received from sale and redemption of investment securities	89,571,583	89,089,037
Purchase of investment securities	(129,488,119)	(155,654,543)
<b>Net cash outflow from investing activities</b>	<b>(30,547,370)</b>	<b>(59,899,409)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debt securities	91,571,884	53,547,181
Dividends and interests paid on debt issued	(1,459,793)	(650,312)
Cash paid relating to debt repayment	(85,431,106)	(48,260,000)
<b>Net cash inflow from financing activities</b>	<b>4,680,985</b>	<b>4,636,869</b>
<b>Impact on cash and cash equivalents resulted from exchange rate changes</b>	<b>(152,025)</b>	<b>59,967</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,896,047)</b>	<b>6,781,317</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>28,774,471</b>	<b>42,304,555</b>
<b>Cash and cash equivalents at end of period (Note 44)</b>	<b>20,878,424</b>	<b>49,085,872</b>

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



# Notes to the Condensed Consolidated Financial Statements

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

## 1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“PBOC”), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. Approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’ anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution license B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 30 June 2017, the registered and paid-in capital of the Bank is RMB11 billion.

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

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 25 August 2017.

## 2 BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial information are set out as below. These policies have been consistently applied to relevant periods presented unless otherwise stated.

### 2.1 Basis of preparation and critical accounting policies

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

Except as described below, the Bank’s accounting policies applied in preparing these unaudited condensed financial statements are consistent with those policies applied in preparing the financial reports as at 31 December 2016.

# Notes to the Condensed Consolidated Financial Statements

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

## 2 BASIS OF PREPARATION (Continued)

### 2.1 Basis of preparation and critical accounting policies (Continued)

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

IAS 7 Amendments	Statement of Cash Flows
IAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 Amendments	Disclosure of Interests in Other Entities

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements to IFRSs 2014-2016 cycle:

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

#### 2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Lease	1 January 2019
IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date has been deferred indefinitely

Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016):

IAS 28	Investment in Associates and Joint Ventures	1 January 2018
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# Notes to the Condensed Consolidated Financial Statements

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

## 2 BASIS OF PREPARATION (Continued)

### 2.1 Basis of preparation and critical accounting policies (Continued)

#### 2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

##### *IFRS 9 – Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Based on the current assessment, the Group expects the adoption of IFRS 9 will have an impact on the Group's financial statements.

##### *Classification and measurement:*

IFRS 9 requires that the Group classifies debt instruments based on the combined effect of application of business model (hold to collect contractual cash flow, hold to collect contractual cash flow and sell financial assets or other business model) and contractual cash flow characteristics (solely payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at fair value through profit and loss. Other debt instruments giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL), based on their respective business model. The Group is in the process of analysing the contractual cash flow characteristics of financial assets and assessing the application of business model.

Equity instruments would generally be measured at fair value through profit and loss unless the Group elects to measure at FVOCI for certain equity investments not held for trading. This will result in unrealized gains and losses on equity instruments currently classified as available-for-sale financial assets being recorded in income going forward. Currently, these unrealized gains and losses are recognized in other comprehensive income. Should we elect to record equity investments at FVOCI, gains and losses would never be recognized in income except for the received dividends not representing a recovery of part of investment cost.

##### *Impairment:*

IFRS 9 replaces the "incurred loss" model with the "expected credit loss" model which is designed to be more forward-looking. The Group is in the process of developing and testing the key models required under IFRS 9 and analysing the impact on the collective provision; the Group estimated the provision for debt instruments of the Group under the "expected credit loss" model would be larger than that under the previous "incurred loss" model.

##### *Hedge accounting:*

The Group does not apply the hedge accounting currently, so the new hedge accounting model under IFRS 9 has no impact to the consolidated financial statements of the Group.

# Notes to the Condensed Consolidated Financial Statements

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

## 2 BASIS OF PREPARATION (Continued)

### 2.1 Basis of preparation and critical accounting policies (Continued)

#### 2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

##### *IFRS 15 – Revenue from Contracts with Customers and IFRS 15 Amendments*

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal-versus-agent consideration, licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. IFRS 15 and the amendments are effective for annual periods beginning on or after 1 January 2018, early adoption is permitted.

##### *IFRS 16 – Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRS Interpretations Committee Interpretation No.4 Determining whether an Arrangement contains a Lease, Standing Interpretations Committee (“SIC”) Interpretation No.15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees- leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements

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

## 2 BASIS OF PREPARATION (Continued)

### 2.1 Basis of preparation and critical accounting policies (Continued)

#### 2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

*IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

In addition, besides the amendments to IFRS 12 effective for annual period beginning on or after 1 January 2017, the Annual Improvements 2014-2016 Cycle issued in December 2016 set out amendments to IFRS 1 and IAS 28, which are effective for annual period beginning on or after 1 January 2018. There are no material changes to the accounting policies of the Group as a result of these amendments.

# Notes to the Condensed Consolidated Financial Statements

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 3.1 Summary of significant accounting policies

#### 3.1.1 Accounting year

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

#### 3.1.2 Functional and presentation currency

The Group's functional and presentation currency is RMB.

#### 3.1.3 Subsidiaries

##### (a) Consolidation

The condensed consolidated financial statements comprise the condensed financial statements of the Bank and all of its subsidiaries.

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

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

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

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

##### (b) Separate financial report

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

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



# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.4 Associates

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

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

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.5 Foreign currency translation

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

#### 3.1.6 Cash and cash equivalents

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

#### 3.1.7 Financial instruments

##### (1) Classification

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

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

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (1) Classification (Continued)

##### (b) Debt instruments classified as receivables

Debt instruments classified as receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

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

##### (d) Held-to-maturity

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

##### (e) Other financial liabilities

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

##### (2) Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the condensed statement of comprehensive income within 'net trading gains/(losses)' in the period in which they arise. The dividend income of financial assets at fair value through profit and loss will be identified as Dividend Income when the group gain the rights to receive the fund.

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (2) Recognition and measurement (Continued)

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

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

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

##### (3) Offsetting financial instruments

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (4) Impairment of financial assets

##### (a) Assets carried at amortised cost

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (4) Impairment of financial assets (Continued)

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

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

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

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



# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (5) Derecognition of financial instruments

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

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.7 Financial instruments (Continued)

##### (6) Fair value measurement

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

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

#### 3.1.8 Derivative financial instruments

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

#### 3.1.9 Asset securitizations

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.10 Resale and repurchase agreements

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

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

#### 3.1.11 Property, plant and equipment

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

##### (a) Cost

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.11 Property, plant and equipment (Continued)

##### (b) Depreciation and impairment

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

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

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

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

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

##### (c) Disposal

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

#### 3.1.12 Land use rights

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.13 Intangible assets

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

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

#### 3.1.14 Allowances for impairment losses on non-financial assets

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

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

#### 3.1.15 Employee benefits

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

##### (a) Defined contribution retirement schemes

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.15 Employee benefits (Continued)

##### (b) Housing fund and other social insurance

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

##### (c) Early retirement expenses

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

#### 3.1.16 Revenue Recognition

##### (a) Interest income

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

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

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



# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.16 Revenue Recognition (Continued)

(b) *Fee and commission income*

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

(c) *Dividend income*

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

#### 3.1.17 Current and deferred tax

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

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

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.18 Provisions and contingent liabilities

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

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

#### 3.1.19 Financial guarantee contracts

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

#### 3.1.20 Fiduciary activities

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.21 Lease

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

(a) *As a lessee under operating leases*

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

(b) *As a lessor under finance leases*

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

(c) *As a lessor under operating lease*

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Operating lease payments are recognized as in current profit and loss according to straight line method during the leasing periods. For initial direct expense that is relatively large, it should be capitalized and recognised in current profit and loss in accordance with the recognition basis of leasing revenue; for initial direct expense that is relatively small, it should be recorded in current profit and loss when incurred. Contingent rentals should be recognized in current profit and loss when actually incurred.

#### 3.1.22 Operating segments

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.2 Critical accounting estimates and judgments

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

#### 3.2.1 Impairment allowances on loans and advances

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

#### 3.2.2 Fair value of financial instruments

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

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

#### 3.2.3 Reclassification of held-to-maturity investments

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

# Notes to the Condensed Consolidated Financial Statements

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

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

### 3.2 Critical accounting estimates and judgments (Continued)

#### 3.2.4 Impairment of other financial assets

For held-to-maturity investments and debt instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

#### 3.2.5 Income taxes

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

#### 3.2.6 Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above

## 4 TAXATION

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

Category	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Value-added tax ("VAT") <sup>(1)</sup>	Taxable income offsetting by VAT on purchases	3%,5%,6%,11%,17%
Business tax <sup>(1)</sup>	Taxable operating income	5%
City construction and maintenance tax	Business tax and VAT	5%,7%
Education surcharge	Business tax and VAT	3%

- (1) Pursuant to the relevant provisions set forth in the Notice Regarding Fully Promoting Value-added Tax Instead Of Business Tax (Cai Shui[2016] No.36) issued by the Ministry of Finance on 23 March, 2016, the business tax would be replaced by value-added tax("VAT") on a nationwide scale since 1 May, 2016. According to the notice, financial services and other business taxpayers start to pay VAT instead of business tax with a main rate of 6%.



# Notes to the Condensed Consolidated Financial Statements

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

## 5 THE BANK'S CONDENSED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 30 June 2017	As at 31 December 2016
<b>Assets</b>		
Cash and balances with central bank	85,084,745	87,647,789
Deposits with banks and other financial institutions	8,915,916	9,169,601
Placements with banks and other financial institutions	7,090,159	19,319,720
Financial assets at fair value through profit or loss	8,500,943	5,742,117
Derivative financial assets	41,160	385,977
Financial assets held under resale agreements	4,933,003	516,183
Loans and advances to customers	284,869,084	265,341,594
Investment securities		
– available-for-sale	124,562,671	122,077,403
– held-to-maturity	55,703,052	52,351,451
– Debt instruments classified as receivables	192,455,588	159,671,108
Investment in subsidiaries	1,122,313	1,122,313
Investment in associates	604,699	538,646
Property, plant and equipment	1,692,873	1,706,057
Deferred tax assets	3,091,505	2,274,500
Other assets	7,398,381	5,101,649
<b>Total assets</b>	<b>786,066,092</b>	<b>732,966,108</b>
<b>Liabilities</b>		
Deposits from banks and other financial institutions	76,606,005	83,386,949
Placements from banks and other financial institutions	2,238,961	1,422,085
Derivative financial liabilities	131,854	4,643
Financial assets sold under repurchase agreements	27,502,992	32,619,242
Deposits from customers	507,401,457	457,642,058
Taxes payable	1,231,176	1,494,750
Debt securities issued	98,092,266	91,505,250
Other liabilities	18,491,060	13,189,789
<b>Total liabilities</b>	<b>731,695,771</b>	<b>681,264,766</b>
<b>Equity</b>		
Share capital	11,049,819	11,049,819
Other equity instruments	5,990,090	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	7,210,939	6,536,297
General reserve	7,637,817	6,208,315
Investment revaluation reserve	(439,636)	(120,747)
Retained earnings	16,170,251	15,286,527
<b>Total equity</b>	<b>54,370,321</b>	<b>51,701,342</b>
<b>Total equity and liabilities</b>	<b>786,066,092</b>	<b>732,966,108</b>

**Li Hongming**

Chairman

**Wu Xuemin**

President

**Sheng Hongqing**

Assistant President

**Li Dawei**

Head of Finance Department



# Notes to the Condensed Consolidated Financial Statements

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

## 5 THE BANK'S CONDENSED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	Total equity
<b>As at 1 January 2017</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>6,536,297</b>	<b>6,208,315</b>	<b>(120,747)</b>	<b>15,286,527</b>	<b>51,701,342</b>
<b>(1) Comprehensive income</b>								
Profit for the year	-	-	-	-	-	-	3,661,907	3,661,907
Other comprehensive income, net of tax	-	-	-	-	-	(318,889)	-	(318,889)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(318,889)</b>	<b>3,661,907</b>	<b>3,343,018</b>
<b>(2) Profit distribution</b>								
Dividends	-	-	-	-	-	-	(674,039)	(674,039)
Appropriation to surplus reserve	-	-	-	674,642	-	-	(674,642)	-
Appropriation to general reserve	-	-	-	-	1,429,502	-	(1,429,502)	-
<b>As at 30 June 2017</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>7,210,939</b>	<b>7,637,817</b>	<b>(439,636)</b>	<b>16,170,251</b>	<b>54,370,321</b>
<b>As at 1 January 2016</b>	<b>11,049,819</b>	<b>-</b>	<b>6,751,041</b>	<b>5,249,966</b>	<b>4,716,293</b>	<b>270,636</b>	<b>13,075,381</b>	<b>41,113,136</b>
<b>Issuance of preference shares</b>	<b>-</b>	<b>5,990,090</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,990,090</b>
<b>(1) Comprehensive income</b>								
Profit for the year	-	-	-	-	-	-	6,746,421	6,746,421
Other comprehensive income, net of tax	-	-	-	-	-	(391,383)	-	(391,383)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(391,383)</b>	<b>6,746,421</b>	<b>6,355,038</b>
<b>(2) Profit distribution</b>								
Dividends	-	-	-	-	-	-	(1,756,922)	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-
Appropriation to general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-
<b>As at 31 December 2016</b>	<b>11,049,819</b>	<b>5,990,090</b>	<b>6,751,041</b>	<b>6,536,297</b>	<b>6,208,315</b>	<b>(120,747)</b>	<b>15,286,527</b>	<b>51,701,342</b>

# Notes to the Condensed Consolidated Financial Statements

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

## 6 NET INTEREST INCOME

	Six months ended 30 June	
	2017	2016
<b>Interest income</b>		
Balances with central bank	597,926	488,775
Deposits and placements with banks and other financial institutions	424,640	936,163
Loans and advances to customers	6,897,232	6,789,416
Investment securities	9,522,790	7,427,647
Finance lease	674,621	322,160
	<b>18,117,209</b>	<b>15,964,161</b>
Including: Interest income accrued on impaired loans to customers	21,099	43,608
<b>Interest expense</b>		
Borrowing from central bank	(35)	(8)
Deposits and placements from banks and other financial institutions	(2,734,233)	(2,350,023)
Deposits from customers	(3,802,903)	(3,041,526)
Debt securities issued	(2,004,929)	(1,668,970)
	<b>(8,542,100)</b>	<b>(7,060,527)</b>
<b>Net interest income</b>	<b>9,575,109</b>	<b>8,903,634</b>

## 7 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
<b>Fee and commission income</b>		
Custodian and other fiduciary service fees	894,045	732,344
Bank card fees	259,440	241,222
Debt securities fees	1,155	–
Consultancy and advisory fees	66,431	89,724
Settlement and clearing fees	99,139	76,607
Agency commissions	124,417	72,588
Guarantee and commitment fees	13,500	4,429
Syndicated loan fees	1,283	4,428
Domestic factoring fees	4,909	4,340
Arrangement fees for international trade financing	707	4,006
Others	97,524	82,185
	<b>1,562,550</b>	<b>1,311,873</b>
<b>Fee and commission expense</b>	<b>(92,802)</b>	<b>(54,274)</b>
<b>Net fee and commission income</b>	<b>1,469,748</b>	<b>1,257,599</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 8 NET TRADING (LOSSES)/GAINS

	Six months ended 30 June	
	2017	2016
Net (losses)/gains from foreign exchange	(136,916)	15,745
Net gain/(losses) from interest rate instruments	16,043	(27,361)
	<b>(120,873)</b>	<b>(11,616)</b>

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

### 9 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2017	2016
Net (losses)/gains on bills	(114,785)	3,755
Others	45,522	29,985
	<b>(69,263)</b>	<b>33,740</b>

### 10 OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
Staff cost (Note 11)	(1,571,140)	(1,344,424)
Business tax and surcharges	(72,832)	(607,703)
General operating and administrative expenses	(525,637)	(460,554)
Operating lease rental expenses	(153,203)	(125,697)
Depreciation (Note 24)	(150,491)	(124,893)
Amortization expenses for long-term prepaid expenses	(40,737)	(38,949)
Amortization expenses for intangible assets (Note 26(d))	(20,391)	(16,505)
Amortization expenses for land use rights (Note 26(c))	(1,849)	(2,112)
Others	(6,763)	(38,106)
	<b>(2,543,043)</b>	<b>(2,758,943)</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 11 STAFF COST

	Six months ended 30 June	
	2017	2016
Salaries, bonuses, allowances and subsidies	(1,199,508)	(1,015,989)
Pension costs	(157,075)	(117,635)
Labor union fee and staff education fee	(29,214)	(22,677)
Other social insurance and welfare costs	(185,343)	(188,123)
	<b>(1,571,140)</b>	<b>(1,344,424)</b>

### 12 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2017	2016
Loans and advances to customers (Note 21(b))		
– Collectively assessed	(1,764,963)	(1,778,392)
– Individually assessed	(628,728)	(358,176)
Debt instruments classified as receivables(Note 22)	(1,457,887)	(749,668)
Available-for-sale financial assets	562,891	(115,422)
Finance lease receivables(Note 25)	(113,349)	(123,522)
Other receivables	(79,999)	–
	<b>(3,482,035)</b>	<b>(3,125,180)</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 13 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
Current income tax		
– PRC mainland income tax	(1,667,229)	(1,452,502)
Deferred tax (Note 34)	703,928	534,055
	<b>(963,301)</b>	<b>(918,447)</b>

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

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

	Six months ended 30 June	
	2017	2016
Profit before tax	4,864,543	4,363,255
Tax calculated at applicable statutory tax rate of 25%	(1,216,136)	(1,090,814)
Tax effect arising from income not subject to tax <sup>(a)</sup>	277,603	201,222
Tax effect of items such as expenses not deductible for tax purposes <sup>(b)</sup>	(18,888)	(15,882)
Tax filing differences from previous year	(5,880)	(12,973)
Income tax expense	<b>(963,301)</b>	<b>(918,447)</b>

(a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.

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

# Notes to the Condensed Consolidated Financial Statements

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

## 14 EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
Net profit attributable to shareholders of the Bank (in RMB thousands)	<b>3,780,300</b>	3,408,204
Weighted average number of ordinary shares in issue (in thousands)	<b>11,049,819</b>	11,049,819
Basic earnings per share (in RMB Yuan)	<b>0.34</b>	0.31

(b) **Diluted earnings per share**

For the six months ended 30 June 2017 and 30 June 2016, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

## 15 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2017	As at 31 December 2016
Cash	<b>1,307,594</b>	1,352,992
Statutory reserves <sup>(a)</sup>	<b>71,088,626</b>	71,999,077
Surplus reserves <sup>(b)</sup>	<b>13,087,141</b>	14,707,291
	<b>85,483,361</b>	88,059,360

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

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

	As at 30 June 2017	As at 31 December 2016
Statutory reserve rate for RMB deposits	<b>13.5%</b>	14.5%
Statutory reserve rate for foreign currency deposits	<b>5.0%</b>	5.0%

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



## Notes to the Condensed Consolidated Financial Statements

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

### 16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Banks in PRC mainland	5,169,414	4,483,089
Banks in PRC mainland non-bank financial institutions	47,112	–
Banks in other countries and regions	4,899,346	6,477,512
	<b>10,115,872</b>	10,960,601
Less: allowances for impairment losses		
– Individually assessed	(3)	(3)
	<b>10,115,869</b>	10,960,598

### 17 PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Banks in PRC mainland	2,520,000	16,829,261
Other financial institutions in PRC mainland	4,570,159	2,490,459
	<b>7,090,159</b>	19,319,720

### 18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2017	As at 31 December 2016
Government bonds		
– Listed outside Hong Kong	275,649	150,736
Other debt securities		
– Listed outside Hong Kong	2,337,701	3,098,940
Interbank certificates of deposit		
– Listed outside Hong Kong	5,887,593	2,492,441
	<b>8,500,943</b>	5,742,117

As at 30 June 2017 and 31 December 2016, there was no significant limitation on the ability of the Group and the Bank to dispose financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

## Notes to the Condensed Consolidated Financial Statements

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

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

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

	As at 30 June 2017	As at 31 December 2016
Debt securities		
Issuers in PRC mainland		
– Government	275,649	150,736
– Banks and other financial institutions	878,598	1,185,578
– Legal entities	1,459,103	1,913,362
Interbank certificates of deposit		
Issuers in PRC mainland		
– Financial institutions	5,887,593	2,492,441
	<b>8,500,943</b>	<b>5,742,117</b>

### 19 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Amount	As at 30 June 2017	
		Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	24,357	252	(271)
– Currency swaps	14,393,311	7,892	(126,914)
– Interest rate swaps	1,750,000	33,016	(4,749)
	<b>16,167,668</b>	<b>41,160</b>	<b>(131,934)</b>

	Notional Amount	As at 31 December 2016	
		Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	180,328	1,583	(1,061)
– Currency swaps	7,887,477	352,891	–
– Interest rate swaps	3,550,000	31,503	(3,582)
	<b>11,617,805</b>	<b>385,977</b>	<b>(4,643)</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 20 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2017	As at 31 December 2016
Securities held under resale	4,868,443	–
Bills held under resale	64,560	516,183
	<b>4,933,003</b>	516,183

### 21 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2017	As at 31 December 2016
Corporate loans and advances		
– Corporate loans	185,814,210	179,201,470
– Discounted bills	13,504,585	16,761,362
Subtotal	<b>199,318,795</b>	195,962,832
Personal loans and advances		
– Mortgage loans	73,258,506	60,672,004
– Revolving loans for individual business	7,404,212	8,689,625
– Others	15,932,992	12,046,187
Subtotal	<b>96,595,710</b>	81,407,816
Total	<b>295,914,505</b>	277,370,648
Less: Allowance for impairment losses		
– Collectively assessed	(7,171,511)	(6,930,897)
– Individually assessed	(1,416,292)	(1,103,610)
Total allowance for impairment losses	<b>(8,587,803)</b>	(8,034,507)
Loans and advances to customers, net	<b>287,326,702</b>	269,336,141

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

	As at 30 June 2017		As at 31 December 2016	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the period/year	6,930,897	1,103,610	5,314,731	691,358
Impairment allowance charged (Note 12)	1,764,963	628,728	2,611,211	2,156,293
Unwinding of discount on allowance	(4,192)	(16,907)	(60,505)	(28,899)
Recoveries	107,289	113,674	26,230	131,599
Written-offs	(1,627,446)	(412,813)	(960,770)	(1,846,741)
Balance at end of the period/year	<b>7,171,511</b>	<b>1,416,292</b>	6,930,897	1,103,610

# Notes to the Condensed Consolidated Financial Statements

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

## 21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	As at 30 June 2017		As at 31 December 2016	
	Corporate loans	Individual loans	Corporate loans	Individual loans
Balance at beginning of the period/year	6,013,332	2,021,175	4,658,802	1,347,287
Impairment allowance charged (Note 12)	1,972,070	421,621	3,705,487	1,062,015
Unwinding of discount on allowance	(16,894)	(4,205)	(68,539)	(20,865)
Recoveries	220,963	–	131,599	26,230
Written-offs	(1,745,856)	(294,403)	(2,414,017)	(393,492)
Balance at end of the period/year	6,443,615	2,144,188	6,013,332	2,021,175

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

As at 30 June 2017	Identified impaired loans and advances			Subtotal	Total
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
– Corporate loans	196,853,753	530,795	1,934,247	2,465,042	199,318,795
– Personal loans and advances	95,917,438	678,272	–	678,272	96,595,710
Allowance for impairment losses	(6,185,136)	(986,375)	(1,416,292)	(2,402,667)	(8,587,803)
Loans and advances to customers, net	286,586,055	222,692	517,955	740,647	287,326,702

As at 31 December 2016	Identified impaired loans and advances			Subtotal	Total
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
– Corporate loans	193,692,542	918,744	1,351,546	2,270,290	195,962,832
– Personal loans and advances	80,710,800	697,016	–	697,016	81,407,816
Allowance for impairment losses	(5,930,044)	(1,000,853)	(1,103,610)	(2,104,463)	(8,034,507)
Loans and advances to customers, net	268,473,298	614,907	247,936	862,843	269,336,141

## Notes to the Condensed Consolidated Financial Statements

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

### 22 INVESTMENT SECURITIES

	As at 30 June 2017	As at 31 December 2016
<b>Available-for-sale financial assets</b>		
Listed outside Hong Kong		
– Debt securities	<b>34,296,926</b>	32,548,360
– Interbank certificates of deposit	<b>12,603,861</b>	14,605,375
Unlisted		
– Beneficial rights in trust and asset management plans <sup>(1)</sup>	<b>69,032,001</b>	60,613,663
– Non-guaranteed wealth management products managed by other banks	<b>8,950,000</b>	13,500,000
– Equity securities	<b>9,500</b>	9,500
Subtotal	<b>124,892,288</b>	121,276,898
Allowance for impairment losses	<b>(329,617)</b>	(892,508)
Available-for-sale financial assets, net	<b>124,562,671</b>	120,384,390
<b>Held-to-maturity investments</b>		
Listed outside Hong Kong		
– Debt securities	<b>55,703,052</b>	52,351,451
Subtotal	<b>55,703,052</b>	52,351,451
<b>Debt instruments classified as receivables</b>		
Unlisted		
– Beneficial rights in trust and asset management plans <sup>(1)</sup>	<b>188,906,972</b>	155,177,254
– Guaranteed wealth management products managed by other banks	<b>6,500,000</b>	6,000,000
– Debt securities	<b>118,274</b>	105,625
Subtotal	<b>195,525,246</b>	161,282,879
Total		
Allowance for impairment losses	<b>(3,069,658)</b>	(1,611,771)
Debt instruments classified as receivables, net	<b>192,455,588</b>	159,671,108

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

# Notes to the Condensed Consolidated Financial Statements

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

## 22 INVESTMENT SECURITIES (Continued)

- (1) Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organized by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) Financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. (c) Products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The detail of unconsolidated structured entities invested by the Group is in Note 43.

Beneficial rights in trust and asset management plans are analysed by category of underlying assets as follows:

	As at 30 June 2017	As at 31 December 2016
<b>Available-for-sale financial assets</b>		
Unsecured products issued by financial institutions	<b>54,098,339</b>	53,580,713
Guaranteed by third- party companies	<b>4,740,000</b>	2,457,230
Collateralized by properties	<b>4,538,782</b>	2,675,920
Senior tranches of ABS	<b>5,654,880</b>	1,899,800
<b>Total</b>	<b>69,032,001</b>	60,613,663
<b>Debt instrument classified as receivables</b>		
Guaranteed by repurchase agreements within Partnership	<b>95,190,662</b>	86,912,872
Pledged by certificates of deposits and bank acceptances	<b>30,219,487</b>	27,939,455
Unsecured products issued by financial institutions	<b>18,143,982</b>	16,657,281
Senior tranches of ABS	<b>20,666,525</b>	13,565,332
Guaranteed by third- party companies	<b>18,305,561</b>	6,531,230
Collateralized by properties	<b>6,380,755</b>	3,571,084
<b>Total</b>	<b>188,906,972</b>	155,177,254



## Notes to the Condensed Consolidated Financial Statements

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

### 22 INVESTMENT SECURITIES (Continued)

Investment securities analyzed by issuer as follows:

	As at 30 June 2017	As at 31 December 2016
<b>Available-for-sale financial assets</b>		
Issuers in PRC mainland		
– Government	14,442,988	16,895,906
– Banks and other financial institutions	102,682,335	100,020,942
– Legal entities	7,757,465	4,350,550
<b>Subtotal</b>	<b>124,882,788</b>	121,267,398
Equity securities	9,500	9,500
Total	124,892,288	121,276,898
Allowance for impairment losses	(329,617)	(892,508)
Available-for-sale financial assets, net	<b>124,562,671</b>	120,384,390
<b>Held-to-maturity investments</b>		
Issuers in PRC mainland		
– Government	43,536,567	39,198,585
– Banks and other financial institutions	7,649,021	9,043,709
– Legal entities	4,517,464	4,109,157
Held-to-maturity investments, net	<b>55,703,052</b>	52,351,451
<b>Debt instrument classified as receivables</b>		
Issuers in PRC mainland		
– Government	118,274	105,625
– Banks and other financial institutions	195,406,972	161,177,254
<b>Total</b>	<b>195,525,246</b>	161,282,879
Allowance for impairment losses	(3,069,658)	(1,611,771)
Debt instrument classified as receivables, net	<b>192,455,588</b>	159,671,108

# Notes to the Condensed Consolidated Financial Statements

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

## 23 INVESTMENT IN ASSOCIATES

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

### As at 30 June 2017

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	23,407,928	20,380,379	847,176	377,209	20%

### As at 31 December 2016

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	22,857,442	20,164,214	1,569,597	670,754	20%

	Six months ended 30 June 2017	Year ended 31 December 2016
Balance at beginning of the period/year	538,646	413,581
Cash dividends received	(8,731)	(19,000)
Share of results, net of tax	74,784	144,065
Balance at end of the period/year	604,699	538,646

Chery Motor Finance Service Co., Ltd. was established in 2009, with registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the registered capital of Chery Motor Finance Service Co., Ltd. was authorized to increase to RMB1 billion. As at 31 December 2013, the Group's share in this associate was RMB200 million or 20%. In 2014, this company has completed its shareholding reform, renamed as Chery Huiyin Motor Finance Service Co., Ltd.

## Notes to the Condensed Consolidated Financial Statements

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

### 24 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
<b>As at 1 January 2017</b>	<b>1,506,184</b>	<b>66,915</b>	<b>1,321,197</b>	<b>280,629</b>	<b>3,174,925</b>
Additions	–	1,053	63,536	79,526	144,115
Transfers in/(out)	–	–	785	(785)	–
Disposals	–	–	(9,664)	–	(9,664)
Other transfers out	–	–	–	(4,877)	(4,877)
<b>As at 30 June 2017</b>	<b>1,506,184</b>	<b>67,968</b>	<b>1,375,854</b>	<b>354,493</b>	<b>3,304,499</b>
Accumulated depreciation					
<b>As at 1 January 2017</b>	<b>(616,499)</b>	<b>(52,135)</b>	<b>(787,049)</b>	–	<b>(1,455,683)</b>
Depreciation charge	(51,177)	(3,911)	(95,403)	–	(150,491)
Disposals	–	–	6,828	–	6,828
<b>As at 30 June 2017</b>	<b>(667,676)</b>	<b>(56,046)</b>	<b>(875,624)</b>	–	<b>(1,599,346)</b>
Net book value					
<b>As at 30 June 2017</b>	<b>838,508</b>	<b>11,922</b>	<b>500,230</b>	<b>354,493</b>	<b>1,705,153</b>

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
<b>As at 1 January 2016</b>	<b>1,506,184</b>	<b>67,590</b>	<b>1,126,262</b>	<b>162,697</b>	<b>2,862,733</b>
Additions	–	661	229,263	200,478	430,402
Transfers in/(out)	–	–	9,766	(9,766)	–
Disposals	–	(1,336)	(44,094)	–	(45,430)
Other transfers out	–	–	–	(72,780)	(72,780)
<b>As at 31 December 2016</b>	<b>1,506,184</b>	<b>66,915</b>	<b>1,321,197</b>	<b>280,629</b>	<b>3,174,925</b>
Accumulated depreciation					
<b>As at 1 January 2016</b>	<b>(548,762)</b>	<b>(45,389)</b>	<b>(651,200)</b>	–	<b>(1,245,351)</b>
Depreciation charge	(67,737)	(8,038)	(177,055)	–	(252,830)
Disposals	–	1,292	41,206	–	42,498
<b>As at 31 December 2016</b>	<b>(616,499)</b>	<b>(52,135)</b>	<b>(787,049)</b>	–	<b>(1,455,683)</b>
Net book value					
<b>As at 31 December 2016</b>	<b>889,685</b>	<b>14,780</b>	<b>534,148</b>	<b>280,629</b>	<b>1,719,242</b>

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

## Notes to the Condensed Consolidated Financial Statements

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

### 25 FINANCE LEASE RECEIVABLES

As at 30 June 2017	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	7,566,472	12,600,290	5,925,420	26,092,182
Unrealized revenue	(1,090,883)	(1,236,814)	(477,992)	(2,805,689)
Allowance	(18,917)	(150,898)	(260,183)	(429,998)
Net	6,456,672	11,212,578	5,187,245	22,856,495

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	5,700,216	10,174,823	4,956,010	20,831,049
Unrealized revenue	(938,762)	(1,114,409)	(262,120)	(2,315,291)
Allowance	(81,662)	(155,182)	(79,805)	(316,649)
Net	4,679,792	8,905,232	4,614,085	18,199,109

The Group's finance lease receivables are all managed by its subsidiary Huishang Bank Financial Leasing Co., Ltd.

### 26 OTHER ASSETS

	As at 30 June 2017	As at 31 December 2016
Interest receivable <sup>(a)</sup>	4,558,016	3,696,629
Other receivables <sup>(b)</sup>	770,290	711,076
Less: impairment allowance	(178,075)	(97,804)
Funds to be settled	2,013,103	168,315
Long-term prepaid expenses	233,279	245,395
Land use rights <sup>(c)</sup>	134,231	160,481
Foreclosed assets	245,146	149,634
Intangible assets <sup>(d)</sup>	106,245	109,663
Others	297,914	137,457
	8,180,149	5,280,846

## Notes to the Condensed Consolidated Financial Statements

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

### 26 OTHER ASSETS (Continued)

#### (a) Interest receivable

	As at 30 June 2017	As at 31 December 2016
Investment securities and financial assets at fair value through profit or loss	3,852,316	2,884,928
Loans and advances to customers	552,188	664,423
Placements with and loans and advances to banks, other financial institutions, and the central bank	26,380	54,410
Finance lease	127,132	92,868
	<b>4,558,016</b>	<b>3,696,629</b>

#### (b) Other receivable

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

As at 30 June 2017	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	628,294	133,396	8,600	770,290
Bad debt allowance	(95,932)	(73,629)	(8,514)	(178,075)
Net	<b>532,362</b>	<b>59,767</b>	<b>86</b>	<b>592,215</b>

  

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	613,267	89,840	7,969	711,076
Bad debt allowance	(52,598)	(39,602)	(5,604)	(97,804)
Net	560,669	50,238	2,365	613,272

#### (c) Land use rights

	Six months ended 30 June 2017	Year ended 31 December 2016
Cost		
Balance at beginning of the period/year	171,835	171,835
Additions	-	-
Disposals	(26,573)	-
Balance at end of the period/year	<b>145,262</b>	<b>171,835</b>
Accumulated amortization		
Balance at beginning of the period/year	(11,354)	(7,128)
Additions	(1,849)	(4,226)
Disposals	2,172	-
Balance at end of the period/year	<b>(11,031)</b>	<b>(11,354)</b>
Net book value		
At end of the period/year	<b>134,231</b>	<b>160,481</b>

## Notes to the Condensed Consolidated Financial Statements

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

### 26 OTHER ASSETS (Continued)

#### (d) Intangible assets

Intangible assets of the Group mainly are computer software.

	Six months ended 30 June 2017	Year ended 31 December 2016
<b>Cost</b>		
Balance at beginning of the period/year	284,345	235,110
Additions	12,152	49,235
Transfers in	4,821	–
Balance at end of the period/year	301,318	284,345
<b>Accumulated amortization</b>		
Balance at beginning of the period/year	(174,682)	(143,662)
Additions	(20,391)	(31,020)
Balance at end of the period/year	(195,073)	(174,682)
<b>Net book value</b>		
At end of the period/year	106,245	109,663

### 27 IMPAIRMENT ALLOWANCE

	As at 1 January 2017	Additions	Recovery	Reversal	Write-off	As at 30 June 2017
Loans and advances	(8,034,507)	(2,393,691)	(220,963)	21,099	2,040,259	(8,587,803)
Deposits with banks and other financial institutions	(3)	–	–	–	–	(3)
Foreclosed assets	(38)	–	–	–	–	(38)
Financial assets available-for-sale	(892,508)	562,891	–	–	–	(329,617)
Debt instrument classified as receivables	(1,611,771)	(1,457,887)	–	–	–	(3,069,658)
Finance lease receivables	(316,649)	(113,349)	–	–	–	(429,998)
Other receivables	(97,804)	(79,999)	(272)	–	–	(178,075)
	(10,953,280)	(3,482,035)	(221,235)	21,099	2,040,259	(12,595,192)



## Notes to the Condensed Consolidated Financial Statements

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

### 27 IMPAIRMENT ALLOWANCE (Continued)

	As at 1 January 2016		Additions	Recovery	Reversal	Write-off	As at 31 December 2016
Loans and advances	(6,006,089)	(4,767,504)	(157,829)	89,404	2,807,511	(8,034,507)	
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)	
Foreclosed assets	(38)	-	-	-	-	(38)	
Financial assets available-for-sale	(462,316)	(430,252)	-	-	60	(892,508)	
Financial assets							
Debt instrument classified as receivables	(631,926)	(979,845)	-	-	-	(1,611,771)	
Finance lease receivables	(95,273)	(221,376)	-	-	-	(316,649)	
Other receivables	(29,109)	(87,936)	(62)	-	19,303	(97,804)	
	(7,224,754)	(6,486,913)	(157,891)	89,404	2,826,874	(10,953,280)	

### 28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Banks in PRC mainland	<b>41,905,048</b>	49,242,466
Other financial institutions in PRC mainland	<b>33,887,577</b>	33,892,643
Banks outside PRC mainland	<b>830,000</b>	81,193
	<b>76,622,625</b>	83,216,302

### 29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Banks in PRC mainland	<b>20,425,081</b>	15,352,085

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2017	As at 31 December 2016
Securities sold under repurchase agreements	18,337,600	25,768,996
Bills sold under repurchase agreements	1,413,689	4,386,716
Precious metal sold under repurchase agreements	7,751,703	2,463,530
	<b>27,502,992</b>	32,619,242

## 31 DEPOSITS FROM CUSTOMERS

	As at 30 June 2017	As at 31 December 2016
Corporate demand deposits	231,350,872	191,066,901
Corporate time deposits	132,549,652	141,819,676
Retail demand deposits	51,375,945	43,420,520
Retail time deposits	74,506,284	62,111,749
Other deposits	21,297,234	23,595,563
	<b>511,079,987</b>	462,014,409
Including:		
Pledged deposits held as collateral	20,628,133	23,116,729

## 32 TAX PAYABLE

	As at 30 June 2017	As at 31 December 2016
Corporate income tax	975,044	1,500,281
Value-added tax	262,899	5,986
Business tax and surcharges	34,212	2,396
Others	30,094	50,598
	<b>1,302,249</b>	1,559,261

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 33 OTHER LIABILITIES

	As at 30 June 2017	As at 31 December 2016
Interest payable <sup>(a)</sup>	8,313,924	7,094,657
Dividends payable <sup>(b)</sup>	831,763	200,398
Unearned rent and deposits under lease arrangements <sup>(c)</sup>	2,088,236	1,973,109
Funds to be settled	7,479,664	3,242,531
Salary and welfare payable <sup>(d)</sup>	1,465,874	1,598,652
Entrusted services	411,288	187,456
Suspense account	46,599	35,589
Project funds payable	32,583	27,518
Others	759,637	954,574
	<b>21,429,568</b>	<b>15,314,484</b>

#### (a) Interest payable

	As at 30 June 2017	As at 31 December 2016
Deposits from customers	5,965,317	5,426,726
Deposits and placement from banks and other financial institutions	1,403,352	1,021,972
Debt securities issued	945,255	645,959
	<b>8,313,924</b>	<b>7,094,657</b>

#### (b) Dividends payable

As at 22 June 2017, the General Meetings of Shareholders was held and decided to distribute cash dividends to all shareholders. Details are listed in note 38.

#### (c) Unearned rent and deposits under lease arrangements

As at 30 June 2017, the Group's unearned rent and deposits under lease arrangements are all contributed by its subsidiary Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income of finance lease.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 33 OTHER LIABILITIES (Continued)

#### (d) Salary and welfare payable

	As at 30 June 2017	As at 31 December 2016
Short-term employee benefits	1,387,849	1,501,825
Termination benefits	65,653	76,050
Defined contribution plans	12,372	20,777
	<b>1,465,874</b>	1,598,652

#### Short-term employee benefits

	As at 1 January 2017	Increase in current period	Decrease in current period	As at 30 June 2017
Wages, bonuses, allowances and subsidies	1,163,894	1,199,508	(1,317,221)	1,046,181
Employee benefits	–	52,254	(52,254)	–
Social insurance	850	62,611	(62,669)	792
Including:				
Medical Insurance	779	58,273	(58,327)	725
Occupational Injury Insurance	36	1,041	(1,042)	35
Maternity Insurance	35	3,297	(3,300)	32
Housing fund	3,079	66,341	(66,392)	3,028
Labour union fee and staff education fee	20,189	29,214	(25,368)	24,035
Other short-term employee benefits	313,813	–	–	313,813
	<b>1,501,825</b>	<b>1,409,928</b>	<b>(1,523,904)</b>	<b>1,387,849</b>

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Wages, bonuses, allowances and subsidies	882,918	2,072,651	(1,791,675)	1,163,894
Employee benefits	187	120,081	(120,268)	–
Social insurance	886	72,802	(72,838)	850
Including:				
Medical Insurance	822	64,705	(64,748)	779
Occupational Injury Insurance	32	2,001	(1,997)	36
Maternity Insurance	32	6,096	(6,093)	35
Housing fund	906	138,970	(136,797)	3,079
Labour union fee and staff education fee	13,719	75,525	(69,055)	20,189
Other short-term employee benefits	313,813	37,383	(37,383)	313,813
	<b>1,212,429</b>	<b>2,517,412</b>	<b>(2,228,016)</b>	<b>1,501,825</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 33 OTHER LIABILITIES (Continued)

#### (d) Salary and welfare payable (Continued)

##### Defined contribution plans

	As at 1 January 2017	Increase in current period	Decrease in current period	As at 30 June 2017
Basic pension insurance	6,444	77,351	(77,645)	6,150
Unemployment Insurance	271	4,137	(4,107)	301
Annuity scheme	14,062	79,724	(87,865)	5,921
	20,777	161,212	(169,617)	12,372

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Basic pension insurance	5,395	140,442	(139,393)	6,444
Unemployment Insurance	226	9,901	(9,856)	271
Annuity scheme	23,603	136,424	(145,965)	14,062
	29,224	286,767	(295,214)	20,777

##### Termination benefits

	As at 30 June 2017	As at 31 December 2016
Early retirement benefits	65,653	76,050

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 34 DEFERRED INCOME TAXES

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

	Six months ended 30 June 2017	Year ended 31 December 2016
Balance at beginning of the period/year	2,309,106	1,274,063
Charged to condensed consolidated comprehensive income statement	703,928	904,582
Credited to shareholders' equity	106,296	130,461
Balance at end of the period/year	3,119,330	2,309,106

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

	As at 30 June 2017	As at 31 December 2016
Deferred tax assets		
Impairment allowance for assets	2,547,865	1,917,144
Salary and welfare payable	323,374	337,951
Changes in fair value	183,297	50,297
Others	64,794	99,047
	3,119,330	2,404,439
Deferred income tax liabilities		
Others	-	(95,333)
Deferred tax assets, net	3,119,330	2,309,106

Deferred taxes recorded in the income statements of current period and the year comprise the following temporary differences:

	Six months ended 30 June	
	2017	2016
Impairment allowance for assets	630,721	529,326
Salary and welfare payable	(14,577)	(12,760)
Changes in fair value	122,037	2,811
Others	(34,253)	14,678
	703,928	534,055



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 35 DEBT SECURITIES ISSUED

	As at 30 June 2017	As at 31 December 2016
Subordinated debts with fixed rate-2026 <sup>(a)</sup>	<b>3,993,807</b>	3,993,248
Financial bonds for SMEs-2018 <sup>(b)</sup>	<b>2,198,665</b>	2,198,324
Financial bonds 01-2018 <sup>(c)</sup>	<b>3,498,987</b>	3,498,440
Financial bonds 02-2020 <sup>(d)</sup>	<b>499,744</b>	499,700
Tier 2 capital bonds-2025 <sup>(e)</sup>	<b>7,988,114</b>	7,987,518
Financial bonds 03-2018 <sup>(f)</sup>	<b>3,498,834</b>	3,498,364
Financial bonds 04-2020 <sup>(g)</sup>	<b>499,734</b>	499,696
Financial bonds 01-2019 <sup>(h)</sup>	<b>6,999,296</b>	6,999,134
Financial bonds 02-2021 <sup>(i)</sup>	<b>2,999,647</b>	2,999,607
Interbank certificates of deposit issued <sup>(j)</sup>	<b>65,915,438</b>	59,331,219
	<b>98,092,266</b>	91,505,250

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

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

- (b) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (c) The Group issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.
- (d) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (e) The Group issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.
- (f) The Group issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.90%, paid annually.
- (g) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (h) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 35 DEBT SECURITIES ISSUED (Continued)

- (i) The Group issued RMB7 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (j) The Group issued 92 interbank certificates of deposit at discounts with total face value of RMB92.87 billion with the maturity ranging from one month to one year. As at 30 June 2017, the face value of the undue interbank certificates of deposit issued is 66.76 billion.

As at 30 June 2017 there are no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

## 36 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

### (1) Share capital

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

	As at 30 June 2017	As at 31 December 2016
Number of authorized shares fully paid in issue (in thousands)	<b>11,049,819</b>	11,049,819

### (2) Other Equity Instruments

Preference shares outstanding as at 30 June 2017 and 31 December 2016

Preference Shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original Currency (USD)	(RMB)	Maturity date	Conversion conditions
30 June 2017 Offshore Preference Shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: Issuance fee							(38,098)		
Carrying amount							5,990,090		

The key terms are as below:

#### (1) Dividend

The initial annual dividend rate is 5.50% and is subsequently subject to reset per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due and payable. Dividend payment method is non-cumulative.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 36 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE(Continued)

### (2) Other Equity Instruments (Continued)

#### (2) Redemption

The Bank may, subject to obtaining CBRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for the Offshore Preference Share shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

#### (3) Compulsory conversion of preference shares

If any Trigger Event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some only of the Offshore Preference Shares into such number of H Shares. Offshore preferred stock issued by our bank is classified as equity instruments and listed in equity of the balance sheet. The capital raised by the aforesaid overseas preferred shares is used to supplement other first level capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

### (3) Capital reserve

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

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

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

The Group's capital surplus is as follows:

	As at 30 June 2017	As at 31 December 2016
Share premium	6,751,041	6,751,041

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 37 OTHER RESERVE

	Surplus reserve <sup>(a)</sup>	General reserve <sup>(b)</sup>
As at 1 January 2016	5,249,966	4,716,293
Appropriation to surplus reserve	1,286,331	–
Appropriation to general reserve	–	1,492,022
As at 31 December 2016	6,536,297	6,208,315
Appropriation to surplus reserve	674,642	–
Appropriation to general reserve	–	1,514,063
As at 30 June 2017	<b>7,210,939</b>	7,722,378

### (a) Surplus reserve

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

As at 30 June 2017 and 31 December 2016, the Bank’s statutory surplus reserve balances were RMB3,814.80 million and RMB3,814.80 million respectively. The others were discretionary surplus reserve.

### (b) General reserve

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

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 38 DIVIDENDS

	Six months ended 30 June 2017	The year ended 31 December 2016
Dividends declared for the period	674,039	1,756,922
Dividends per ordinary share (in RMB Yuan)	0.061	0.159
Dividends paid during the period	42,674	1,766,060

The final dividend of RMB0.061 per share in respect of the year ended 31 December 2016 has been approved by the shareholders in the general meeting.

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

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

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

### 39 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group’s financial guarantees and credit commitments:

	As at 30 June 2017	As at 31 December 2016
Bank acceptance	29,795,464	39,097,490
Letters of credit issued	5,698,875	3,693,397
Letters of guarantee issued	11,276,991	9,634,980
Loan commitments	2,694,976	1,694,421
Unused credit card lines	11,294,805	8,823,994
	60,761,111	62,944,282

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

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

#### (b) Capital commitments

	As at 30 June 2017	As at 31 December 2016
Contracted but not provided for	353,152	120,689

#### (c) Operating lease commitments

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

	As at 30 June 2017	As at 31 December 2016
Within 1 year	220,507	297,607
Between 1 year to 5 years	558,570	770,940
Later than 5 years	151,457	243,015
	930,534	1,311,562

#### (d) Treasury bond redemption commitments

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

As at 30 June 2017 and 31 December 2016, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity were RMB2.62 billion and RMB1.69 billion respectively.

#### (e) Legal proceedings

During the reporting period, the Group is involved as defendants in certain lawsuits arising from its normal business operations. At 30 June 2017, provision for litigation losses as advised by in-house or external legal professionals was RMB0.13 billion (31 December 2016: RMB0.14 billion). Based on legal advice, the management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 40 COLLATERAL

#### (a) Pledged assets

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

	As at 30 June 2017	As at 31 December 2016
Available-for-sale financial assets	5,771,134	11,353,104
Held-to-maturity investments	11,461,068	12,952,985
Discounted bills	1,418,927	4,382,331
	<b>18,651,129</b>	28,688,420

The carrying value of financial assets sold under repurchase agreements by the Group as at 30 June 2017 was RMB27,503 million (as at 31 December 2016 RMB32,619 million) as set out in Note 30. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize amounted to zero as at 30 June 2017 (as at 31 December 2016: zero).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

#### (b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in connection with the purchase of assets under resale agreements. Certain of these collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB470 million as at 30 June 2017 (31 December 2016: RMB516 million). The Group has accepted collateral that can be re-pledged and the Group has the right to return with a carrying amount of zero as at 30 June 2017 (31 December 2016: RMB zero).

### 41 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2017	As at 31 December 2016
Financial guarantees and credit related commitments	21,474,018	22,737,419

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 42 INVESTMENT REVALUATION RESERVE

	Six months ended 30 June 2017		
	Pre-tax amount	Tax charge	Net-of-tax amount
<b>Balance at 1 January 2017</b>	<b>(160,996)</b>	<b>40,249</b>	<b>(120,747)</b>
Fair value changes in available-for-sale financial assets	(463,849)	115,964	(347,885)
Deduct: Included in the current profit and loss	38,664	(9,668)	28,996
<b>Balance at 30 June 2017</b>	<b>(586,181)</b>	<b>146,545</b>	<b>(439,636)</b>

  

	Year ended 31 December 2016		
	Pre-tax amount	Tax charge	Net-of-tax amount
Balance at 1 January 2016	360,848	(90,212)	270,636
Fair value changes in available-for-sale	(650,441)	162,610	(487,831)
Deduct: Included in the current profit and loss	128,597	(32,149)	96,448
Balance at 31 December 2016	(160,996)	40,249	(120,747)

## 43 STRUCTURED ENTITIES

### a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products ("WMP") issued and managed by the Bank acting as an agent, which are not subject to any guarantee by the group of the principal invested or interest to be paid. Wealth management products were mainly invested in money market instruments, bonds and loan assets, etc. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these wealth management products. As at 30 June 2017 and 31 December 2016, total wealth commission income the Group received are 342.31 million and 328.34 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 30 June 2017, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB78,336 million (31 December 2016: RMB71,449 million). As at 30 June 2017 the Group's maximum exposure to these unconsolidated structured entities is zero (31 December 2016 is zero).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2017, no loss was incurred by the WMP vehicles relating to the Group's interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 43 STRUCTURED ENTITIES(Continued)

### b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products, the trust fund and asset management plan schemes issued and managed by other independent third parties during the period ended 30 June 2017 and 31 December 2016. The Group classifies these assets into “debt instruments classified as receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities during the period ended 30 June 2017 and 31 December 2016.

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

	Carrying Value	Maximum Exposure to Loss
<b>At 30 June 2017</b>		
<b>Debt instruments classified as receivables</b>		
– Guaranteed wealth management products	6,500,000	6,500,000
– Trust fund and asset management plan	185,837,314	185,837,314
<b>Available-for-sale financial assets</b>		
– Non-guaranteed wealth management products	8,950,000	8,950,000
– Trust fund and asset management plan	68,702,384	68,702,384
<b>At 31 December 2016</b>		
<b>Debt instruments classified as receivables</b>		
– Guaranteed wealth management products	6,000,000	6,000,000
– Beneficial rights in trust and asset management plans	153,565,483	153,565,483
<b>Available-for-sale financial assets</b>		
– Non-guaranteed wealth management products	13,500,000	13,500,000
– Beneficial rights in trust and asset management plans	59,721,155	59,721,155

The information of total size of the unconsolidated structured entities listed above is not readily available.

### c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and the beneficial rights in trust and asset management plans which the Group made the investment decision.

The Group did not provide liquidity support to these consolidated structured entities during the period ended 30 June 2017, and the year ended 31 December 2016.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 44 NOTES TO THE STATEMENT OF CASH FLOWS

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

	As at 30 June 2017	As at 31 December 2016
Cash	1,307,594	1,352,992
Surplus reserve with central bank	13,087,141	14,707,291
Deposits with banks and other financial institutions	6,483,689	12,714,188
	<b>20,878,424</b>	28,774,471

## 45 CREDIT ASSETS SECURITIZATION TRANSACTIONS

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

As at 30 June 2017, loans with an original carrying amount of RMB323 million (2016: RMB656 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2017, the carrying amount of assets that the Group continued to recognise was RMB20 million (2016: RMB27 million), and was recognized as available-for-sale financial assets.

## 46 RELATED PARTY TRANSACTIONS

### (1) Related parties

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

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Shanghai Soong Ching Ling Foundation	Major shareholder	14.20%
Anhui Province Energy Group Co.	Major shareholder	9.75%
China Vanke Co.,Ltd.	Major shareholder	8.00%
Anhui Guoyuan Holding (Group) Co.	Major shareholder	7.19%
Anhui Credit Guaranty Group Co.	Major shareholder	6.81%

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 46 RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions and balances

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

##### a) Transactions with major shareholders and balances

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

	As at 30 June 2017	As at 31 December 2016
Loans and advances to customers	2,000,000	2,079,998
Placements from banks and other financial institutions	1,153,289	219,105
Deposits from customers	739,445	2,855,395
Bank acceptance	46,456	2,090
Letters of guarantee issued	1,472	–
	<b>3,940,662</b>	5,156,588

	As at 30 June 2017	As at 31 December 2016
Loans and advances to customers	3.96%	4.75%-5.70%
Placements from banks and other financial institutions	0.30%~5.10%	0.30%-3.00%
Deposits from customers	0.30%~2.10%	0.30%-1.30%

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

	Six months ended 30 June	
	2017	2016
Interest income	41,794	3,229
Interest expense	3,890	1,740
Management fee of asset management plans	2,435	–

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 46 RELATED PARTY TRANSACTIONS (Continued)

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

#### b) Transactions with other related parties

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

	As at 30 June 2017	As at 31 December 2016
Placements with banks and other financial institutions	–	200,000
Loans and advances to customers	<b>246,758</b>	5,081
Placements from banks and other financial institutions	<b>21,218</b>	81,734
Deposits from customers	<b>41,881</b>	267,549
Bank acceptance	<b>64,995</b>	1,183
Letters of guarantee issued	<b>11,732</b>	10,945
	<b>386,584</b>	566,492

	As at 30 June 2017	As at 31 December 2016
Placements with banks and other financial institutions	–	4.30%
Loans and advances to customers	<b>3.63%~4.35%</b>	3.43%-5.39%
Placements from banks and other financial institutions	<b>0.30%~1.25%</b>	0.72%-1.08%
Deposits from customers	<b>0.30%~1.00%</b>	0.30%-1.82%

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

	Six months ended 30 June	
	2017	2016
Interest income	<b>4,538</b>	55
Interest expense	<b>719</b>	554

#### c) Emoluments for directors, supervisors and senior management

	Six months ended 30 June	
	2017	2016
Emoluments for directors, supervisors and senior management	<b>4,397</b>	6,406



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 47 SEGMENT ANALYSIS

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

### Corporate banking

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

### Retail banking

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

### Treasury

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

### Others

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

Geographically, the Group mainly conducts its business in PRC and opens branches in Anhui Province and the Yangtze River Delta area. When listing information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 47 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	6,235,565	1,336,287	10,545,357	–	18,117,209
Net interest expense to external customers	(3,170,625)	(985,868)	(4,385,607)	–	(8,542,100)
Intersegment net interest income/ (expense)	1,402,653	1,164,880	(2,567,533)	–	–
<b>Net interest income</b>	<b>4,467,593</b>	<b>1,515,299</b>	<b>3,592,217</b>	<b>–</b>	<b>9,575,109</b>
<b>Net fee and commission income</b>	<b>919,190</b>	<b>364,340</b>	<b>173,251</b>	<b>12,967</b>	<b>1,469,748</b>
Net trading gains	–	–	(120,873)	–	(120,873)
Net gains from investment securities	–	–	(39,884)	–	(39,884)
Other operating income	–	–	(101,249)	31,986	(69,263)
Operating expenses	(1,171,337)	(659,459)	(709,619)	(2,628)	(2,543,043)
– Depreciation and amortization	(89,888)	(21,420)	(100,724)	(1,436)	(213,468)
Impairment losses on assets	(1,676,301)	(856,157)	(869,578)	(79,999)	(3,482,035)
Share of profits of associates	–	–	–	74,784	74,784
<b>Profit before income tax</b>	<b>2,539,145</b>	<b>364,023</b>	<b>1,924,265</b>	<b>37,110</b>	<b>4,864,543</b>
<b>Capital expenditure</b>	<b>63,190</b>	<b>21,280</b>	<b>70,950</b>	<b>953</b>	<b>156,373</b>

	As at 30 June 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
<b>Segment assets</b>	<b>256,205,970</b>	<b>118,400,810</b>	<b>434,205,683</b>	<b>746,541</b>	<b>809,559,004</b>
<i>Including: investment in associates</i>	–	–	–	604,699	604,699
<b>Deferred tax assets</b>					<b>3,119,330</b>
<b>Total assets</b>					<b>812,678,334</b>
<b>Segment liabilities</b>	<b>(399,972,214)</b>	<b>(128,563,499)</b>	<b>(226,919,290)</b>	<b>(1,131,699)</b>	<b>(756,586,702)</b>
<b>Off-balance sheet credit commitments</b>	<b>49,382,464</b>	<b>11,378,647</b>	–	–	<b>60,761,111</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 47 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2016				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	5,059,662	1,557,686	8,958,444	388,369	15,964,161
Net interest expense to external customers	(2,262,080)	(755,960)	(3,855,075)	(187,412)	(7,060,527)
Intersegment net interest income/ (expense)	1,310,626	798,156	(2,108,782)	–	–
<b>Net interest income</b>	<b>4,108,208</b>	<b>1,599,882</b>	<b>2,994,587</b>	<b>200,957</b>	<b>8,903,634</b>
<b>Net fee and commission income</b>	<b>889,003</b>	<b>259,236</b>	<b>30,210</b>	<b>79,150</b>	<b>1,257,599</b>
Net trading gains	–	–	(11,616)	–	(11,616)
Net gains from investment securities	–	–	(16,690)	–	(16,690)
Other operating income	–	–	7,966	25,774	33,740
Operating expenses	(1,223,915)	(782,835)	(668,875)	(83,318)	(2,758,943)
– Depreciation and amortization	(94,013)	(81,906)	(3,079)	(3,461)	(182,459)
Impairment losses on assets	(1,358,517)	(665,941)	(967,444)	(133,278)	(3,125,180)
Share of profits of associates	–	–	–	80,711	80,711
<b>Profit before income tax</b>	<b>2,414,779</b>	<b>410,342</b>	<b>1,368,138</b>	<b>169,996</b>	<b>4,363,255</b>
<b>Capital expenditure</b>	<b>85,691</b>	<b>74,656</b>	<b>2,806</b>	<b>1,666</b>	<b>164,819</b>

  

	As at 30 June 2016				
	Corporate banking	Retail banking	Treasury	Others	Total
<b>Segment assets</b>	<b>183,112,265</b>	<b>71,414,371</b>	<b>419,124,929</b>	<b>19,189,618</b>	<b>692,841,183</b>
<i>Including: investment in associates</i>	–	–	–	494,292	494,292
<b>Deferred tax assets</b>					<b>1,830,017</b>
<b>Total assets</b>					<b>694,671,200</b>
<b>Segment liabilities</b>	<b>(332,004,245)</b>	<b>(103,946,882)</b>	<b>(195,898,250)</b>	<b>(18,854,224)</b>	<b>(650,703,601)</b>
<b>Off-balance sheet credit commitments</b>	<b>60,346,213</b>	<b>6,616,451</b>	–	<b>103,848</b>	<b>67,066,512</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 47 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	6,995,025	881,092	10,241,092	-	18,117,209
Net interest expense to external customers	(3,047,593)	(437,862)	(5,056,645)	-	(8,542,100)
Intersegment net interest income/(expense)	2,148,336	30,457	(2,178,793)	-	-
<b>Net interest income</b>	<b>6,095,768</b>	<b>473,687</b>	<b>3,005,654</b>	<b>-</b>	<b>9,575,109</b>
<b>Net fee and commission income</b>	<b>582,962</b>	<b>31,861</b>	<b>854,925</b>	<b>-</b>	<b>1,469,748</b>
Net trading gains	(13,825)	(477)	(106,571)	-	(120,873)
Net gains from investment securities	-	-	(39,884)	-	(39,884)
Other operating income	(39,710)	(1,156)	(28,397)	-	(69,263)
Operating expenses	(1,582,065)	(132,067)	(828,911)	-	(2,543,043)
– Depreciation and amortization	(148,628)	(6,813)	(58,027)	-	(213,468)
Impairment losses on assets	(2,213,157)	(167,138)	(1,101,740)	-	(3,482,035)
Share of profits of associates	-	-	74,784	-	74,784
<b>Profit before income tax</b>	<b>2,829,973</b>	<b>204,710</b>	<b>1,829,860</b>	<b>-</b>	<b>4,864,543</b>
<b>Capital expenditure</b>	<b>108,876</b>	<b>4,990</b>	<b>42,507</b>	<b>-</b>	<b>156,373</b>

	As at 30 June 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
<b>Segment assets</b>	<b>497,098,455</b>	<b>53,227,545</b>	<b>464,570,635</b>	<b>(205,337,631)</b>	<b>809,559,004</b>
<i>Including: investment in associates</i>	-	-	604,699	-	604,699
<b>Deferred tax assets</b>					<b>3,119,330</b>
<b>Total assets</b>					<b>812,678,334</b>
<b>Segment liabilities</b>	<b>(471,710,859)</b>	<b>(65,280,183)</b>	<b>(424,933,291)</b>	<b>205,337,631</b>	<b>(756,586,702)</b>
<b>Off-balance sheet credit commitments</b>	<b>36,735,289</b>	<b>6,478,692</b>	<b>17,547,130</b>	<b>-</b>	<b>60,761,111</b>

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 47 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	6,036,322	1,145,320	8,782,519	–	15,964,161
Net interest expense to external customers	(3,235,835)	(771,375)	(3,053,317)	–	(7,060,527)
Intersegment net interest income/ (expense)	2,725,095	113,546	(2,838,641)	–	–
<b>Net interest income</b>	<b>5,525,582</b>	<b>487,491</b>	<b>2,890,561</b>	<b>–</b>	<b>8,903,634</b>
<b>Net fee and commission income</b>	<b>537,087</b>	<b>21,098</b>	<b>699,414</b>	<b>–</b>	<b>1,257,599</b>
Net trading gains	5,824	288	(17,728)	–	(11,616)
Net gains from investment securities	–	–	(16,690)	–	(16,690)
Other operating income	14,736	–	19,004	–	33,740
Operating expenses	(1,128,784)	(87,290)	(1,542,869)	–	(2,758,943)
– Depreciation and amortization	(115,405)	(7,692)	(59,362)	–	(182,459)
Impairment losses on assets	(2,107,057)	(166,979)	(851,144)	–	(3,125,180)
Share of profits of associates	–	–	80,711	–	80,711
<b>Profit before income tax</b>	<b>2,847,388</b>	<b>254,608</b>	<b>1,261,259</b>	<b>–</b>	<b>4,363,255</b>
<b>Capital expenditure</b>	<b>143,585</b>	<b>255</b>	<b>20,979</b>	<b>–</b>	<b>164,819</b>

	As at 30 June 2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
<b>Segment assets</b>	<b>416,819,378</b>	<b>54,461,405</b>	<b>393,930,041</b>	<b>(172,369,641)</b>	<b>692,841,183</b>
<i>Including: investment in associates</i>	–	–	494,292	–	494,292
<b>Deferred tax assets</b>					<b>1,830,017</b>
<b>Total assets</b>					<b>694,671,200</b>
<b>Segment liabilities</b>	<b>(247,833,988)</b>	<b>(47,087,304)</b>	<b>(528,151,900)</b>	<b>172,369,591</b>	<b>(650,703,601)</b>
<b>Off-balance sheet credit commitments</b>	<b>41,282,028</b>	<b>8,216,614</b>	<b>17,567,870</b>	<b>–</b>	<b>67,066,512</b>

There were no material transactions with a single external customer that the Group mainly relies on.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT

### Overview

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

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

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

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

### 48.1 Credit risk

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



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.1 Credit risk measurement

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

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

The five categories are defined by the Guideline as follows:

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

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

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

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

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.1 Credit risk measurement (Continued)

(ii) *Debt securities and other bills*

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

(iii) *Deposits with banks and other financial institutions, Placements with banks and other financial institutions and Financial assets held under resale agreements*

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

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

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

#### 48.1.2 Risk limit control and mitigation policies

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

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.2 Risk limit control and mitigation policies (Continued)

##### (i) Credit risk mitigation policies

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

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

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

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

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

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

##### (ii) Credit-related off-balance sheet commitments

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2017	As at 31 December 2016
<b>Credit risk exposures relating to on-balance sheet financial assets are as follows:</b>		
Balances with the central bank	84,175,767	86,706,368
Deposits with banks and other financial institutions	10,115,869	10,960,598
Placement with banks and other financial institutions	7,090,159	19,319,720
Financial assets at fair value through profit or loss	8,500,943	5,742,117
Derivative financial assets	41,160	385,977
Financial assets held under resale agreements	4,933,003	516,183
Loans and advances to customers	287,326,702	269,336,141
Investment securities-available-for-sale	124,553,171	120,384,390
Investment securities-held-to-maturity	55,703,052	52,351,451
Investment securities-Debt instruments classified as receivables	192,455,588	159,671,108
Finance lease receivables	22,856,495	18,199,109
Other financial assets	6,499,235	4,478,216
	<b>804,251,144</b>	<b>748,051,378</b>
<b>Credit risk exposures relation to off-balance sheet items are as follows:</b>		
Bank acceptance	29,795,464	39,097,490
Letters of credit	5,698,875	3,693,397
Letters of guarantee	11,276,991	9,634,980
Loan commitments	2,694,976	1,694,421
Unused credit card lines	11,294,805	8,823,994
	<b>60,761,111</b>	<b>62,944,282</b>

The above table represents the worst-case scenario of credit risk exposure to the Group at 30 June 2017 and 31 December 2016, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the condensed consolidated statement of financial position.

As mentioned above, 35.72% of on-balance-sheet exposure is attributable to loans and advances to customers (2016: 36.01%).

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

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

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

- 97.06% of the loans and advances portfolio is categorized as Pass of the five-category system (2016: 96.97%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 98.14% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 97.81%);

#### 48.1.4 Deposits with banks and other financial institutions, placement with and loans to banks and other financial institutions and financial assets held under resale agreements

Placements with banks and other financial institutions and financial assets hold under resale agreements are neither overdue nor impaired. Their credit risk can be evaluated by the credibility of the counterparties. The Group has accrued sufficient allowance against the impaired deposits with banks and other financial institutions at 30 June 2017 and 31 December 2016.

	As at 30 June 2017	As at 31 December 2016
Commercial banks in PRC mainland	12,622,418	21,768,144
Other financial institutions in PRC mainland	4,617,271	2,550,845
Commercial banks outside PRC mainland	4,899,342	6,477,512
	<b>22,139,031</b>	30,796,501

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.5 Loans and advances to customers

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

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	<b>53,795,434</b>	<b>18</b>	58,132,854	21
Manufacturing	<b>40,111,748</b>	<b>14</b>	40,993,942	14
Public utilities	<b>46,734,190</b>	<b>16</b>	36,511,110	13
Real estate	<b>11,007,884</b>	<b>4</b>	11,100,001	4
Construction	<b>14,803,376</b>	<b>5</b>	12,766,086	5
Transportation	<b>5,266,263</b>	<b>2</b>	3,949,700	1
Energy and chemistry	<b>5,954,926</b>	<b>2</b>	5,903,036	2
Catering and travelling	<b>1,859,759</b>	–	1,874,180	1
Education and media	<b>1,859,193</b>	–	1,880,063	1
Financial services	<b>2,465,129</b>	<b>1</b>	4,456,635	2
Others	<b>1,956,308</b>	–	1,633,863	1
Discounted bills	<b>13,504,585</b>	<b>5</b>	16,761,362	6
Subtotal	<b>199,318,795</b>	<b>67</b>	195,962,832	71
Personal loans and advances				
Mortgages	<b>73,258,506</b>	<b>25</b>	60,672,004	22
Revolving loans for private				
business	<b>7,404,212</b>	<b>3</b>	8,689,625	3
Others	<b>15,932,992</b>	<b>5</b>	12,046,187	4
Subtotal	<b>96,595,710</b>	<b>33</b>	81,407,816	29
Total loans and advances to customers, before impairment allowance	<b>295,914,505</b>	<b>100</b>	277,370,648	100

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.5 Loans and advances to customers (Continued)

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

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

	As at 30 June 2017	As at 31 December 2016
Unsecured	33,573,318	33,628,711
Guaranteed	61,336,170	70,179,467
Collateralized	142,620,325	138,688,332
Pledged	58,384,692	34,874,138
<b>Total loans and advances to customers</b>	<b>295,914,505</b>	<b>277,370,648</b>

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

	As at 30 June 2017			As at 31 December 2016		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	254,288,821	85.93%	1.16%	254,095,371	91.61%	1.01%
Pan Yangtze River Delta	41,625,684	14.07%	0.45%	23,275,277	8.39%	1.77%
<b>Total loans and advances to customers</b>	<b>295,914,505</b>	<b>100.00%</b>	<b>1.06%</b>	<b>277,370,648</b>	<b>100.00%</b>	<b>1.07%</b>

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

	As at 30 June 2017		As at 31 December 2016	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	195,366,494	95,034,450	191,260,649	80,045,537
Overdue but not impaired (f)	1,487,259	882,988	2,431,893	665,263
Impaired (g)	2,465,042	678,272	2,270,290	697,016
<b>Total</b>	<b>199,318,795</b>	<b>96,595,710</b>	<b>195,962,832</b>	<b>81,407,816</b>
Less: collectively assessed impairment allowance	(5,027,323)	(2,144,188)	(4,861,318)	(2,021,175)
Individually assessed impairment allowance	(1,416,292)	-	(1,152,014)	-
<b>Total impairment allowance</b>	<b>(6,443,615)</b>	<b>(2,144,188)</b>	<b>(6,013,332)</b>	<b>(2,021,175)</b>
<b>Net</b>	<b>192,875,180</b>	<b>94,451,522</b>	<b>189,949,500</b>	<b>79,386,641</b>



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.5 Loans and advances to customers (Continued)

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

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

#### As at 30 June 2017

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special- mention	
Corporate loans			
– Commercial loans	177,969,712	3,892,197	181,861,909
– Discounted bills	13,504,585	–	13,504,585
Subtotal	191,474,297	3,892,197	195,366,494
Personal loans and advances	94,998,851	35,599	95,034,450
Total	286,473,148	3,927,796	290,400,944

#### As at 31 December 2016

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special- mention	
Corporate loans			
– Commercial loans	170,813,768	3,685,519	174,499,287
– Discounted bills	16,761,362	–	16,761,362
Subtotal	187,575,130	3,685,519	191,260,649
Personal loans and advances	80,037,796	7,741	80,045,537
Total	267,612,926	3,693,260	271,306,186

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 48 FINANCIAL RISK MANAGEMENT (Continued)

#### 48.1 Credit risk (Continued)

##### 48.1.5 Loans and advances to customers (Continued)

###### (f) Loans and advances overdue but not impaired

Analysis of loans and advances overdue but not impaired by overdue days:

As at 30 June 2017	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans	230,546	159,716	169,833	927,164	1,487,259
Personal loans and advances	311,131	167,622	113,719	290,516	882,988
	541,677	327,338	283,552	1,217,680	2,370,247

  

As at 31 December 2016	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans	689,299	223,278	142,755	1,376,561	2,431,893
Personal loans and advances	263,987	95,891	118,280	187,105	665,263
	953,286	319,169	261,035	1,563,666	3,097,156

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 30 June 2017, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB1,412,645 thousand (31 December 2016: RMB3,898,193 thousand). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB929,400 thousand (31 December 2016: RMB665,477 thousand).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.5 Loans and advances to customers (Continued)

##### (g) Impaired loans and advances

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

	As at 30 June 2017	As at 31 December 2016
Corporate loans	2,465,042	2,270,290
Personal loans and advances	678,272	697,016
	<b>3,143,314</b>	2,967,306
Fair value of collateral		
Corporate loans	2,212,638	2,029,028
Personal loans and advances	607,821	629,750
	<b>2,820,459</b>	2,658,778

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

##### (h) Renegotiated loans and advances

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As at 30 June 2017, carrying value of the renegotiated loans held by the Group amounted to RMB785 million (31 December 2016: RMB831 million).

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 48 FINANCIAL RISK MANAGEMENT (Continued)

#### 48.1 Credit risk (Continued)

##### 48.1.5 Loans and advances to customers (Continued)

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

As at 30 June 2017					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	115,341	139,745	53,183	1,885	310,154
Guaranteed	364,784	1,094,088	242,816	12,416	1,714,104
Collateralized	703,122	1,707,451	978,460	68,580	3,457,613
Pledged	92	–	5,430	–	5,522
	<b>1,183,339</b>	<b>2,941,284</b>	<b>1,279,889</b>	<b>82,881</b>	<b>5,487,393</b>

As at 31 December 2016					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	145,177	86,216	33,881	–	265,274
Guaranteed	396,935	923,062	262,461	15	1,582,473
Collateralized	1,066,672	2,102,855	951,574	25,812	4,146,913
Pledged	399	69,325	78	–	69,802
	<b>1,609,183</b>	<b>3,181,458</b>	<b>1,247,994</b>	<b>25,827</b>	<b>6,064,462</b>

##### 48.1.6 Debt securities

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

As at 30 June 2017	Financial assets at fair value through profit or loss <sup>(a)</sup>	Available- for-sale <sup>(b)</sup>	Held-to- maturity <sup>(a)</sup>	debt instruments classified as receivables <sup>(c)</sup>	Total
RMB securities					
AAA	49,146	6,206,162	27,327,241	–	33,582,549
AA- to AA+	125,851	3,140,802	1,885,765	–	5,152,418
A- to A+	440,579	109,814	–	–	550,393
Unrated <sup>(a)</sup>	7,885,367	115,435,510	26,490,046	195,525,246	345,336,169
Total	<b>8,500,943</b>	<b>124,892,288</b>	<b>55,703,052</b>	<b>195,525,246</b>	<b>384,621,529</b>
Allowance for impairment losses	–	(329,617)	–	(3,069,658)	(3,399,275)
Net balance	<b>8,500,943</b>	<b>124,562,671</b>	<b>55,703,052</b>	<b>192,455,588</b>	<b>381,222,254</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.6 Debt securities (Continued)

As at 31 December 2016	Financial assets at fair value through profit or loss <sup>(a)</sup>	Available- for-sale <sup>(b)</sup>	Held-to- maturity <sup>(a)</sup>	debt instruments classified as receivables <sup>(c)</sup>	Total
RMB securities					
AAA	189,478	1,132,365	4,894,979	–	6,216,822
AA- to AA+	347,560	3,132,253	2,903,530	–	6,383,343
A- to A+	749,676	557,034	–	–	1,306,710
Unrated <sup>(a)</sup>	4,455,403	116,445,746	44,552,942	161,282,879	326,736,970
Total	5,742,117	121,267,398	52,351,451	161,282,879	340,643,845
Allowance for impairment losses	–	(892,508)	–	(1,611,771)	(2,504,279)
Net balance	5,742,117	120,374,890	52,351,451	159,671,108	338,139,566

(a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.

(b) The unrated available-for-sale held by the Group mainly represent investments and trading securities issued by MOF, policy banks, other financial institutions, asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed wealth management products. The principle and income of asset management schemes and other investment funds are mainly guaranteed by financial institutions or third party companies, or secured by collateral. The Bank sets credit risk limit to the counter party banks and third party companies to mitigate the risk associated therewith.

(c) Debt instruments classified as receivables mainly include the principal-guaranteed wealth management products issued by other banks and other fixed-income financial instruments.

## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 48 FINANCIAL RISK MANAGEMENT (Continued)

#### 48.1 Credit risk (Continued)

##### 48.1.7 Foreclosed collateral

	As at 30 June 2017	As at 31 December 2016
Property and land use rights	196,030	147,072
Others	49,154	2,600
Total	245,184	149,672
Allowance for impairment losses (Note 27)	(38)	(38)
Net balance	245,146	149,634

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

##### 48.1.8 Concentration of risks of financial assets with credit risk exposure

###### Geographical sectors

As at 30 June 2017	PRC mainland	Hong Kong	Others	Total
<b>Financial assets</b>				
Balances with the central bank	84,175,767	-	-	84,175,767
Deposits with banks and other financial institutions	5,216,526	4,711,297	188,046	10,115,869
Placements with banks and other financial institutions	7,090,159	-	-	7,090,159
Financial assets at fair value through profit or loss	8,500,943	-	-	8,500,943
Derivative financial assets	41,160	-	-	41,160
Financial assets held under resale agreements	4,933,003	-	-	4,933,003
Loans and advances to customers	287,326,702	-	-	287,326,702
Investment securities				
– available-for-sale	124,553,171	-	-	124,553,171
Investment securities				
– held-to-maturity	55,703,052	-	-	55,703,052
Investment securities				
– debt instruments classified as receivables	192,455,588	-	-	192,455,588
Finance lease receivables	22,856,495	-	-	22,856,495
Other financial assets	6,499,235	-	-	6,499,235
	799,351,801	4,711,297	188,046	804,251,144
<b>Off-balance sheet assets</b>				
Bank acceptance	29,795,464	-	-	29,795,464
Letters of credit	5,698,875	-	-	5,698,875
Letters of guarantee	11,276,991	-	-	11,276,991
Loan commitments	2,694,976	-	-	2,694,976
Unused credit card lines	11,294,805	-	-	11,294,805
	60,761,111	-	-	60,761,111

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.1 Credit risk (Continued)

#### 48.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2016	PRC mainland	Hong Kong	Others	Total
<b>Financial assets</b>				
Balances with the central bank	86,706,368	–	–	86,706,368
Deposits with banks and other financial institutions	4,483,089	6,219,424	258,085	10,960,598
Placements with banks and other financial institutions	19,319,720	–	–	19,319,720
Financial assets at fair value through profit or loss	5,742,117	–	–	5,742,117
Derivative financial assets	385,977	–	–	385,977
Financial assets held under resale agreements	516,183	–	–	516,183
Loans and advances to customers	269,336,141	–	–	269,336,141
Investment securities				
– available-for-sale	120,384,390	–	–	120,384,390
Investment securities				
– held-to-maturity	52,351,451	–	–	52,351,451
Investment securities				
– debt instruments classified as receivables	159,671,108	–	–	159,671,108
Finance lease receivables	18,199,109	–	–	18,199,109
Other financial assets	4,478,216	–	–	4,478,216
	741,573,869	6,219,424	258,085	748,051,378
<b>Off-balance sheet assets</b>				
Bank acceptance	39,097,490	–	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	9,634,980	–	–	9,634,980
Loan commitments	1,694,421	–	–	1,694,421
Unused credit card lines	8,823,994	–	–	8,823,994
	62,944,282	–	–	62,944,282



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk

#### 48.2.1 Overview

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

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

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

#### 48.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

#### 48.2.3 Interest rate risk

The interest rate risk refers to the risk the adverse fluctuation of which has negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to interest rate risk through its lending, deposits and funding activities.

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

The PBOC established RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.3 Interest rate risk (Continued)

As at 30 June 2017	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and balances with the central bank	85,483,361	-	-	-	-	-	85,483,361
Deposits with banks and other financial institutions	8,716,825	726,135	672,909	-	-	-	10,115,869
Placements with banks and other financial institutions	2,949,019	2,180,159	1,960,981	-	-	-	7,090,159
Financial assets at fair value through profit or loss	339,403	2,027,323	4,449,738	1,302,090	382,389	-	8,500,943
Derivatives financial assets	-	-	-	-	-	41,160	41,160
Financial assets held under resale agreements	4,933,003	-	-	-	-	-	4,933,003
Loans and advances to customers	83,324,743	22,986,136	112,057,414	54,592,074	14,366,335	-	287,326,702
Investment securities							
– available-for-sale	10,931,084	35,062,682	30,412,460	41,537,020	6,609,925	9,500	124,562,671
– held-to-maturity	319,960	859,826	3,881,559	28,239,871	22,401,836	-	55,703,052
– debt instruments classified as receivables	13,859,738	14,628,296	41,243,177	112,827,877	9,896,500	-	192,455,588
Finance lease receivables	1,291,080	1,590,216	17,967,320	2,007,879	-	-	22,856,495
Other financial assets	-	-	-	-	-	6,499,235	6,499,235
<b>Total assets</b>	<b>212,148,216</b>	<b>80,060,773</b>	<b>212,645,558</b>	<b>240,506,811</b>	<b>53,656,985</b>	<b>6,549,895</b>	<b>805,568,238</b>
<b>Liabilities</b>							
Borrowing from central bank	-	-	-	-	-	-	-
Deposits from banks and other financial institutions	(14,168,807)	(14,713,564)	(31,406,142)	(16,334,112)	-	-	(76,622,625)
Placements from banks and other financial institutions	-	(10,627,771)	(9,797,310)	-	-	-	(20,425,081)
Derivatives financial liabilities	-	-	-	-	-	(131,934)	(131,934)
Financial assets sold under repurchase agreements	(15,131,987)	(704,568)	(8,166,437)	(3,500,000)	-	-	(27,502,992)
Deposits from customers	(319,662,065)	(28,298,628)	(85,616,410)	(77,485,615)	(17,269)	-	(511,079,987)
Debt securities issued	(7,407,324)	(13,173,115)	(46,533,663)	(18,996,243)	(11,981,921)	-	(98,092,266)
Other financial liabilities	-	-	-	-	-	(15,771,227)	(15,771,227)
<b>Total liabilities</b>	<b>(356,370,183)</b>	<b>(67,517,646)</b>	<b>(181,519,962)</b>	<b>(116,315,970)</b>	<b>(11,999,190)</b>	<b>(15,903,161)</b>	<b>(749,626,112)</b>
<b>Total interest rate sensitivity gap</b>	<b>(144,221,967)</b>	<b>12,543,127</b>	<b>31,125,596</b>	<b>124,190,841</b>	<b>41,657,795</b>	<b>(9,353,266)</b>	<b>55,942,126</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.3 Interest rate risk (Continued)

As at 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and balances with the central bank	87,776,866	-	-	-	-	282,494	88,059,360
Deposits with banks and other financial institutions	10,257,598	569,000	134,000	-	-	-	10,960,598
Placements with banks and other financial institutions	2,463,126	6,736,112	10,120,482	-	-	-	19,319,720
Financial assets at fair value through profit or loss	389,343	854,816	2,497,882	1,439,612	560,464	-	5,742,117
Derivatives financial assets	-	-	-	-	-	385,977	385,977
Financial assets held under resale agreements	516,183	-	-	-	-	-	516,183
Loans and advances to customers	79,171,892	21,286,017	104,798,400	52,333,559	11,746,273	-	269,336,141
Investment securities							
- available-for-sale	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	9,500	120,384,390
- held-to-maturity	709,770	849,857	3,607,946	26,162,922	21,020,956	-	52,351,451
- debt instruments classified as receivables	6,994,974	16,281,907	26,379,251	104,547,715	5,467,261	-	159,671,108
Finance lease receivables	295,295	804,655	3,579,842	13,389,889	129,428	-	18,199,109
Other financial assets	-	-	-	-	-	4,478,216	4,478,216
<b>Total assets</b>	<b>197,829,385</b>	<b>78,914,318</b>	<b>193,077,404</b>	<b>229,863,981</b>	<b>44,563,095</b>	<b>5,156,187</b>	<b>749,404,370</b>
<b>Liabilities</b>							
Borrowing from central bank	-	-	(5,000)	-	-	-	(5,000)
Deposits from banks and other financial institutions	(31,312,433)	(21,396,493)	(20,458,287)	(10,049,089)	-	-	(83,216,302)
Placements from banks and other financial institutions	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	(15,352,085)
Derivatives financial liabilities	-	-	-	-	-	(4,643)	(4,643)
Financial assets sold under repurchase agreements	(29,062,211)	(690,767)	(2,866,264)	-	-	-	(32,619,242)
Deposits from customers	(276,278,855)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	(462,014,409)
Debt securities issued	(13,530,000)	(7,120,000)	(37,270,000)	(21,671,198)	(11,914,052)	-	(91,505,250)
Other financial liabilities	-	-	-	-	-	(12,573,802)	(12,573,802)
<b>Total liabilities</b>	<b>(352,789,364)</b>	<b>(73,694,566)</b>	<b>(144,797,468)</b>	<b>(100,495,598)</b>	<b>(12,935,292)</b>	<b>(12,578,445)</b>	<b>(697,290,733)</b>
<b>Total interest rate sensitivity gap</b>	<b>(154,959,979)</b>	<b>5,219,752</b>	<b>48,279,936</b>	<b>129,368,383</b>	<b>31,627,803</b>	<b>(7,422,258)</b>	<b>52,113,637</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.3 Interest rate risk (Continued)

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

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

	Estimated changes in net interest income	
	As at 30 June 2017	As at 31 December 2016
100 bps up along the yield curve	724,388	989,393
100 bps down along the yield curve	(724,388)	(989,393)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income. The potential impact is as follows:

	Six months ended 30 June 2017	Year ended 31 December 2016
100 bps up	(812,943)	(977,187)
100 bps down	856,822	1,030,730

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

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

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.4 Currency risk

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

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

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

	RMB	USD	EUR	Others	Total
<b>As at 30 June 2017</b>					
<b>Assets</b>					
Cash and balances with the central bank	85,158,697	322,428	161	2,075	85,483,361
Deposits with banks and other financial institutions	4,838,035	5,186,020	36,522	55,292	10,115,869
Placements with banks and other financial institutions	2,845,422	4,132,384	7,750	104,603	7,090,159
Financial assets at fair value through profit or loss	8,500,943	-	-	-	8,500,943
Derivative financial assets	41,160	-	-	-	41,160
Financial assets held under resale agreements	4,933,003	-	-	-	4,933,003
Loans and advances to customers	285,772,909	1,512,790	36,322	4,681	287,326,702
Investment securities					
– available-for-sale	122,530,351	2,032,320	-	-	124,562,671
– held-to-maturity	55,703,052	-	-	-	55,703,052
– debt instruments classified as receivables	192,455,588	-	-	-	192,455,588
Finance lease receivables	22,856,495	-	-	-	22,856,495
Other financial assets	6,439,489	59,633	24	89	6,499,235
<b>Total assets</b>	<b>792,075,144</b>	<b>13,245,575</b>	<b>80,779</b>	<b>166,740</b>	<b>805,568,238</b>
<b>Liabilities</b>					
Borrowing from central bank	-	-	-	-	-
Deposits from banks and other financial institutions	(62,936,244)	(13,686,381)	-	-	(76,622,625)
Placements from banks and other financial institutions	(17,910,000)	(2,410,056)	-	(105,025)	(20,425,081)
Derivative financial liabilities	(131,934)	-	-	-	(131,934)
Financial assets sold under repurchase agreements	(27,502,992)	-	-	-	(27,502,992)
Deposits from customers	(506,308,042)	(4,723,109)	(8,193)	(40,643)	(511,079,987)
Debt securities issued	(98,092,266)	-	-	-	(98,092,266)
Other financial liabilities	(15,527,733)	(234,110)	(2,318)	(7,066)	(15,771,227)
<b>Total liabilities</b>	<b>(728,409,211)</b>	<b>(21,053,656)</b>	<b>(10,511)</b>	<b>(152,734)</b>	<b>(749,626,112)</b>
<b>Net on-balance sheet financial position</b>	<b>63,665,933</b>	<b>(7,808,081)</b>	<b>70,268</b>	<b>14,006</b>	<b>55,942,126</b>
<b>Financial guarantees and credit commitments</b>	<b>49,519,362</b>	<b>5,067,174</b>	<b>4,150,633</b>	<b>2,023,942</b>	<b>60,761,111</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
<b>As at 31 December 2016</b>					
<b>Assets</b>					
Cash and balances with the central bank	87,776,265	281,077	63	1,955	88,059,360
Deposits with banks and other financial institutions	4,296,978	6,539,190	49,016	75,414	10,960,598
Placements with banks and other financial institutions	17,363,486	1,956,234	-	-	19,319,720
Financial assets at fair value through profit or loss	5,742,117	-	-	-	5,742,117
Derivative financial assets	385,977	-	-	-	385,977
Financial assets held under resale agreements	516,183	-	-	-	516,183
Loans and advances to customers	267,796,209	1,493,060	42,484	4,388	269,336,141
Investment securities					
– available-for-sale	120,384,390	-	-	-	120,384,390
– held-to-maturity	52,351,451	-	-	-	52,351,451
– debt instruments classified as receivables	159,671,108	-	-	-	159,671,108
Finance lease receivables	18,199,109	-	-	-	18,199,109
Other financial assets	4,472,149	5,938	129	-	4,478,216
<b>Total assets</b>	<b>738,955,422</b>	<b>10,275,499</b>	<b>91,692</b>	<b>81,757</b>	<b>749,404,370</b>
<b>Liabilities</b>					
Borrowing from central bank	(5,000)	-	-	-	(5,000)
Deposits from banks and other financial institutions	(76,693,201)	(6,523,101)	-	-	(83,216,302)
Placements from banks and other financial institutions	(13,930,000)	(1,422,085)	-	-	(15,352,085)
Derivative financial liabilities	(4,643)	-	-	-	(4,643)
Financial assets sold under repurchase agreements	(32,619,242)	-	-	-	(32,619,242)
Deposits from customers	(457,954,269)	(4,006,522)	(15,259)	(38,359)	(462,014,409)
Debt securities issued	(91,505,250)	-	-	-	(91,505,250)
Other financial liabilities	(12,506,730)	(67,057)	(1)	(14)	(12,573,802)
<b>Total liabilities</b>	<b>(685,218,335)</b>	<b>(12,018,765)</b>	<b>(15,260)</b>	<b>(38,373)</b>	<b>(697,290,733)</b>
<b>Net on-balance sheet financial position</b>	<b>53,737,087</b>	<b>(1,743,266)</b>	<b>76,432</b>	<b>43,384</b>	<b>52,113,637</b>
Financial guarantees and credit commitments	53,766,050	8,755,353	330,184	92,695	62,944,282



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.2 Market risk (Continued)

#### 48.2.4 Currency risk (Continued)

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

	Estimated change in net profit/(loss)	
	As at 30 June 2017	As at 31 December 2016
1% of appreciation of FX against RMB	(57,929)	(12,176)
1% of depreciation of FX against RMB	57,929	12,176

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

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

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

### 48.3 Liquidity risk

#### 48.3.1 Overview

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

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

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



# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.2 Cash flow of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 30 June 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Borrowing from central bank	-	-	-	-	-	-
Deposits from banks and other financial institutions	(14,185,603)	(14,830,667)	(31,752,047)	(18,844,949)	-	(79,613,266)
Placements from banks and other financial institutions	-	(10,684,840)	(9,918,457)	-	-	(20,603,297)
Financial assets sold under repurchase agreements	(15,133,101)	(713,730)	(8,340,347)	(3,598,400)	-	(27,785,578)
Deposits from customers	(319,684,214)	(28,452,254)	(87,430,684)	(85,070,368)	(19,340)	(520,656,860)
Debt securities in issued	(7,420,000)	(14,270,500)	(47,631,000)	(22,745,300)	(14,548,800)	(106,615,600)
Other financial liabilities	(7,094,449)	(267,304)	-	(95,550)	-	(7,457,303)
<b>Total liabilities(contractual maturity)</b>	<b>(363,517,367)</b>	<b>(69,219,295)</b>	<b>(185,072,535)</b>	<b>(130,354,567)</b>	<b>(14,568,140)</b>	<b>(762,731,904)</b>
<b>Assets</b>						
Cash and balances with the central bank	85,483,361	-	-	-	-	85,483,361
Deposits with banks and other financial institutions	8,716,899	731,588	687,117	-	-	10,135,604
Placements with banks and other financial institutions	2,951,063	2,191,125	2,028,362	-	-	7,170,550
Financial assets at fair value through profit or loss	349,770	2,106,348	4,673,531	1,563,557	432,901	9,126,107
Financial assets held under resale agreements	4,937,723	-	-	-	-	4,937,723
Loans and advances to customers	16,086,462	19,934,786	103,629,870	48,543,571	99,684,201	287,878,890
Investment securities						
- available-for-sale	11,383,381	36,129,085	32,343,639	46,346,172	7,815,103	134,017,380
- held-to-maturity	565,686	1,556,402	4,976,422	34,343,531	24,174,020	65,616,061
- debt instruments classified as receivables	14,800,946	17,290,701	47,442,684	129,036,112	11,517,652	220,088,095
Finance lease receivables	606,801	1,286,475	5,696,533	18,248,826	253,546	26,092,181
Other financial assets	1,909,822	-	-	31,397	-	1,941,219
<b>Financial assets held for managing liquidity risk (contractual maturity)</b>	<b>147,791,914</b>	<b>81,226,510</b>	<b>201,478,158</b>	<b>278,113,166</b>	<b>143,877,423</b>	<b>852,487,171</b>
<b>Net liquidity</b>	<b>(215,725,453)</b>	<b>12,007,215</b>	<b>16,405,623</b>	<b>147,758,599</b>	<b>129,309,283</b>	<b>89,755,267</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Borrowing from central bank	-	-	(5,088)	-	-	(5,088)
Deposits from banks and other financial institutions	(31,312,433)	(22,385,065)	(22,405,709)	(11,869,036)	-	(87,972,243)
Placements from banks and other financial institutions	(2,608,439)	(4,612,863)	(8,327,432)	-	-	(15,548,734)
Financial assets sold under repurchase agreements	(29,084,073)	(695,346)	(2,904,875)	-	-	(32,684,294)
Deposits from customers	(276,296,244)	(40,048,642)	(77,101,838)	(76,888,458)	(1,226,481)	(471,561,663)
Debt securities in issued	(13,530,000)	(7,481,000)	(38,270,500)	(26,244,300)	(14,810,800)	(100,336,600)
Other financial liabilities	(5,479,145)	-	-	-	-	(5,479,145)
<b>Total liabilities(contractual maturity)</b>	<b>(358,310,334)</b>	<b>(75,222,916)</b>	<b>(149,015,442)</b>	<b>(115,001,794)</b>	<b>(16,037,281)</b>	<b>(713,587,767)</b>
<b>Assets</b>						
Cash and balances with the central bank	88,059,360	-	-	-	-	88,059,360
Deposits with banks and other financial institutions	9,950,202	898,266	136,554	-	-	10,985,022
Placements with banks and other financial institutions	2,466,462	6,789,515	10,294,279	-	-	19,550,256
Financial assets at fair value through profit or loss	398,965	887,998	2,645,860	1,722,849	634,167	6,289,839
Financial assets held under resale agreements	519,184	-	-	-	-	519,184
Loans and advances to customers	17,988,316	24,905,003	115,962,242	84,551,899	66,320,216	309,727,676
Investment securities						
- available-for-sale	9,306,831	31,962,665	43,992,135	35,953,454	6,005,558	127,220,643
- held-to-maturity	824,310	1,169,199	5,063,416	31,692,820	22,700,761	61,450,506
- debt instruments classified as receivables	11,283,871	26,147,954	31,959,909	126,158,042	7,025,600	202,575,376
Finance lease receivables	300,569	818,597	3,642,289	13,622,637	131,667	18,515,759
Other financial assets	781,587	-	-	-	-	781,587
<b>Financial assets held for managing liquidity risk (contractual maturity)</b>	<b>141,879,657</b>	<b>93,579,197</b>	<b>213,696,684</b>	<b>293,701,701</b>	<b>102,817,969</b>	<b>845,675,208</b>
<b>Net liquidity</b>	<b>(216,430,677)</b>	<b>18,356,281</b>	<b>64,681,242</b>	<b>178,699,907</b>	<b>86,780,688</b>	<b>132,087,441</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.3 Derivative financial instruments cash flow

*Derivatives settled on a gross basis*

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet of 30 June 2017 and 31 December 2016 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
<b>As at 30 June 2017</b>						
Foreign exchange derivatives						
– Outflow	(10,611)	(1,896,141)	(12,498,723)	–	–	(14,405,475)
– Inflow	10,876	1,908,184	12,290,838	–	–	14,209,898
	265	12,043	(207,885)	–	–	(195,577)
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
<b>As at 31 December 2016</b>						
Foreign exchange derivatives						
– Outflow	(27,495)	(3,485,733)	(4,554,428)	–	–	(8,067,656)
– Inflow	27,622	3,697,189	4,713,058	–	–	8,437,869
	127	211,456	158,630	–	–	370,213

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.4 Maturity analysis

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

As at 30 June 2017	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	85,483,361	-	-	-	-	-	-	-	85,483,361
Deposits with banks and other financial institutions	2,424,572	6,292,253	726,135	672,909	-	-	-	-	10,115,869
Placements with banks and other financial institutions	-	2,949,019	2,180,159	1,960,981	-	-	-	-	7,090,159
Financial assets at fair value through profit or loss	-	339,403	2,027,323	4,449,738	1,302,090	382,389	-	-	8,500,943
Derivative financial assets	-	245	21,625	6,198	13,092	-	-	-	41,160
Financial assets held under resale agreements	-	4,933,003	-	-	-	-	-	-	4,933,003
Loans and advances to customers	-	14,123,575	19,897,868	103,431,803	48,449,675	99,495,928	1,927,853	-	287,326,702
Investment securities									
- available-for-sale	-	10,931,084	34,759,053	30,346,080	41,677,022	6,609,925	230,007	9,500	124,562,671
- held-to-maturity	-	319,960	859,826	3,881,559	28,239,871	22,401,836	-	-	55,703,052
- debt instruments classified as receivables	-	13,859,738	14,628,296	41,203,177	112,841,877	9,896,500	26,000	-	192,455,588
Finance lease receivables	-	1,291,080	1,590,216	17,967,320	2,007,879	-	-	-	22,856,495
Other financial assets	290,326	1,669,354	2,374,850	684,188	510,292	965,837	4,388	-	6,499,235
<b>Total assets</b>	<b>88,198,259</b>	<b>56,708,714</b>	<b>79,065,351</b>	<b>204,603,953</b>	<b>235,041,798</b>	<b>139,752,415</b>	<b>2,188,248</b>	<b>9,500</b>	<b>805,568,238</b>
Borrowing from central bank	-	-	-	-	-	-	-	-	-
Deposits from banks and other financial institutions	(3,339,783)	(10,829,024)	(14,713,564)	(31,406,142)	(16,334,112)	-	-	-	(76,622,625)
Placements from banks and other financial institutions	-	-	(10,627,771)	(9,797,310)	-	-	-	-	(20,425,081)
Derivative financial liabilities	-	(270)	(4,182)	(124,478)	(3,004)	-	-	-	(131,934)
Financial assets sold under repurchase agreements	-	(15,131,987)	(704,568)	(8,166,437)	(3,500,000)	-	-	-	(27,502,992)
Deposits from customers	(297,034,767)	(22,627,298)	(28,298,628)	(85,616,410)	(77,485,615)	(17,269)	-	-	(511,079,987)
Debt securities in issued	-	(7,407,324)	(13,173,115)	(46,533,663)	(18,996,243)	(11,981,921)	-	-	(98,092,266)
Other financial liabilities	(541,212)	(8,170,360)	(1,666,576)	(2,724,489)	(2,182,608)	(485,982)	-	-	(15,771,227)
<b>Total liabilities</b>	<b>(300,915,762)</b>	<b>(64,166,263)</b>	<b>(69,188,404)</b>	<b>(184,368,929)</b>	<b>(118,501,582)</b>	<b>(12,485,172)</b>	<b>-</b>	<b>-</b>	<b>(749,626,112)</b>
<b>Net liquidity gap</b>	<b>(212,717,503)</b>	<b>(7,457,549)</b>	<b>9,876,947</b>	<b>20,235,024</b>	<b>116,540,216</b>	<b>127,267,243</b>	<b>2,188,248</b>	<b>9,500</b>	<b>55,942,126</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.4 Maturity analysis (Continued)

As at 31 December 2016	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	88,059,360	-	-	-	-	-	-	-	88,059,360
Deposits with banks and other financial institutions	7,872,098	2,385,500	569,000	134,000	-	-	-	-	10,960,598
Placements with banks and other financial institutions	-	2,463,126	6,736,112	10,120,482	-	-	-	-	19,319,720
Financial assets at fair value through profit or loss	-	389,343	854,816	2,497,883	1,439,611	560,464	-	-	5,742,117
Derivative financial assets	-	685	201,856	152,248	31,188	-	-	-	385,977
Financial assets held under resale agreements	-	516,183	-	-	-	-	-	-	516,183
Loans and advances to customers	-	17,136,435	21,329,001	104,787,634	56,349,968	67,305,575	2,427,528	-	269,336,141
Investment securities									
- available-for-sale	-	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	-	9,500	120,384,390
- held-to-maturity	-	709,770	849,857	3,607,946	26,162,921	21,020,957	-	-	52,351,451
- debt instruments classified as receivables	-	6,994,974	16,281,907	26,349,251	104,547,715	5,467,261	30,000	-	159,671,108
Finance lease receivables	-	295,295	804,655	3,579,842	13,389,889	129,428	-	-	18,199,109
Other financial assets	298,408	586,261	865,480	1,738,272	895,796	-	93,999	-	4,478,216
<b>Total assets</b>	<b>96,229,866</b>	<b>40,731,910</b>	<b>80,024,638</b>	<b>194,927,159</b>	<b>234,807,372</b>	<b>100,122,398</b>	<b>2,551,527</b>	<b>9,500</b>	<b>749,404,370</b>
Borrowing from central bank	-	-	-	(5,000)	-	-	-	-	(5,000)
Deposits from banks and other financial institutions	(21,322,095)	(9,990,339)	(21,396,492)	(20,458,287)	(10,049,089)	-	-	-	(83,216,302)
Placements from banks and other financial institutions	-	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	-	(15,352,085)
Derivative financial liabilities	-	(569)	(1,260)	(977)	(1,837)	-	-	-	(4,643)
Financial assets sold under repurchase agreements	-	(29,062,211)	(690,767)	(2,866,264)	-	-	-	-	(32,619,242)
Deposits from customers	(250,548,858)	(25,729,997)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	-	(462,014,409)
Debt securities issued	-	(13,530,000)	(7,120,000)	(37,270,000)	(21,605,880)	(11,979,370)	-	-	(91,505,250)
Other financial liabilities	(5,853,727)	(418,560)	(1,408,000)	(2,076,515)	(2,479,048)	(337,952)	-	-	(12,573,802)
<b>Total liabilities</b>	<b>(277,724,680)</b>	<b>(81,337,541)</b>	<b>(75,103,825)</b>	<b>(146,874,960)</b>	<b>(102,911,165)</b>	<b>(13,338,562)</b>	<b>-</b>	<b>-</b>	<b>(697,290,733)</b>
<b>Net liquidity gap</b>	<b>(181,494,814)</b>	<b>(40,605,631)</b>	<b>4,920,813</b>	<b>48,052,199</b>	<b>131,896,207</b>	<b>86,783,836</b>	<b>2,551,527</b>	<b>9,500</b>	<b>52,113,637</b>

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.3 Liquidity risk (Continued)

#### 48.3.5 Off-balance sheet items

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

As at 30 June 2017	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	29,795,464	–	–	29,795,464
Letters of credit	5,235,873	463,002	–	5,698,875
Letters of guarantee	7,526,573	3,287,680	462,738	11,276,991
Loan commitments	2,584,976	110,000	–	2,694,976
Unused credit card lines	1,843,034	8,873,349	578,422	11,294,805
	46,985,920	12,734,031	1,041,160	60,761,111

As at 31 December 2016	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	39,095,890	1,600	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	7,489,486	1,671,705	473,789	9,634,980
Loan commitments	1,664,421	30,000	–	1,694,421
Unused credit card lines	1,439,077	6,932,247	452,670	8,823,994
	53,382,271	8,635,552	926,459	62,944,282

### 48.4 Fair value of financial assets and liabilities

#### (a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt investments with significant unobservable inputs.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.4 Fair value of financial assets and liabilities (Continued)

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

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

- (i) Balances with central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

- (ii) *Loans and advances to customers*

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value is approximate to the fair value.

- (iii) *Deposits from customers*

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers is approximate to the fair value.

- (iv) *Finance lease receivables*

The balance of finance lease receivables is calculated based on effective interest rate method. Since the actual interest rate of a financial leasing is linked and timely adjusted to the interest rates that PBOC stipulates, the carrying value is approximate to fair value.



## Notes to the Unaudited Condensed Consolidated Financial Statements

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

### 48 FINANCIAL RISK MANAGEMENT (Continued)

#### 48.4 Fair value of financial assets and liabilities (Continued)

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

##### (iv) Finance lease receivables (Continued)

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

	As at 30 June 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Investment securities					
– Held-to-maturity	55,703,052	–	54,448,551	–	54,448,551
Investment securities					
– Debt instruments classified as receivables	192,455,588	–	118,274	190,332,665	190,450,939
<b>Financial Liabilities</b>					
Debt securities issued	(98,092,266)	–	(96,625,389)	–	(96,625,389)

	As at 31 December 2016				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Investment securities					
– Held-to-maturity	52,351,451	–	52,695,493	–	52,695,493
Investment securities					
– Debt instruments classified as receivables	159,671,108	–	90,349	159,565,483	159,655,832
<b>Financial Liabilities</b>					
Debt securities issued	(91,505,250)	–	(90,444,884)	–	(90,444,884)

##### (i) Debt instruments classified as receivables and held-to-maturity investments

Investment securities classified as held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

##### (ii) Debt securities in issued

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

The other financial instruments not measured at fair value in the condensed consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets are not significant.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.4 Fair value of financial assets and liabilities (Continued)

#### (c) Financial instruments measured at fair value

As at 30 June 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	2,613,350	–	2,613,350
– Interbank certificates of deposit	–	5,887,593	–	5,887,593
Derivative financial assets	–	41,160	–	41,160
Available-for-sale				
– Debt securities	–	34,296,926	–	34,296,926
– Interbank certificates of deposit	–	12,603,861	–	12,603,861
– Equity securities	–	–	9,500	9,500
– Asset management schemes by securities firms or trust companies	–	–	68,702,384	68,702,384
– Wealth management products	–	–	8,950,000	8,950,000
<b>Total assets</b>	–	<b>55,442,890</b>	<b>77,661,884</b>	<b>133,104,774</b>
Derivative financial liabilities	–	(131,934)	–	(131,934)
<b>Total liabilities</b>	–	<b>(131,934)</b>	–	<b>(131,934)</b>
As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	3,249,676	–	3,249,676
– Interbank certificates of deposit	–	2,492,441	–	2,492,441
Derivative financial assets	–	385,977	–	385,977
Available-for-sale				
– Debt securities	–	32,548,360	–	32,548,360
– Interbank certificates of deposit	–	14,605,375	–	14,605,375
– Equity securities	–	–	9,500	9,500
– Asset management schemes by securities firms or trust companies	–	–	59,721,155	59,721,155
– Wealth management products	–	–	13,500,000	13,500,000
<b>Total assets</b>	–	<b>53,281,829</b>	<b>73,230,655</b>	<b>126,512,484</b>
Derivative financial liabilities	–	(4,643)	–	(4,643)
<b>Total liabilities</b>	–	<b>(4,643)</b>	–	<b>(4,643)</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.4 Fair value of financial assets and liabilities (Continued)

#### (c) Financial instruments measured at fair value (Continued)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets classified into level 2 includes bonds investment, foreign exchange forward contracts, currency swap contracts, and interest rate swap contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign exchange forward contracts, currency swap contracts, and interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

The nature of the assets classified within Level 3 of the fair value measurement hierarchy is primarily investment products issued by domestic trust companies or other financial institutions, underlying assets of which include credit assets, deposits with financial institutions and debt securities. The significant unobservable inputs related to the credit assets are those around credit risk and liquidity risk. This largely relates to the lack of historical default and liquidity information through one or more economic cycles, which Mainland China has not experienced. Management has made assumptions, based on observed indicators of impairment or significant changes in yield, but the actual value realized from these underlying assets in a current arm's length sale could differ from those disclosed.

The following table presents the changes in level 3 instruments:

	Available-for-sale
Balance at 1 January 2017	73,230,655
– Additions	64,482,344
– Disposals	(60,051,115)
Balance at 30 June 2017	77,661,884
Total gains for the period included in profit or loss for assets held at 30 June 2017	–
	Available-for-sale
Balance at 1 January 2016	72,122,420
– Additions	61,612,915
– Disposals	(60,504,680)
Balance at 31 December 2016	73,230,655
Total gains for the year included in profit or loss for assets held at 31 December 2016	2,770

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

The table below summarizes the Capital Adequacy Ratios of the Group as at 30 June 2017:

		As at 30 June 2017	As at 31 December 2016
Common Equity Tier-one Capital Adequacy Ratio	(a)	<b>8.62%</b>	8.79%
Tier-one Capital Adequacy Ratio	(a)	<b>9.69%</b>	9.94%
Capital Adequacy Ratio	(a)	<b>12.42%</b>	12.99%
Common Equity Tier-one Capital	(b)	<b>49,611,073</b>	46,637,740
Deductible Items from Common Equity Tier-one Capital	(c)	<b>(104,181)</b>	(116,938)
Net Common Equity Tier-one Capital		<b>49,506,892</b>	46,520,802
Additional Tier-one Capital	(d)	<b>6,115,742</b>	6,085,614
Net Tier-one Capital		<b>55,622,634</b>	52,606,416
Tier-two capital	(e)	<b>15,677,714</b>	16,126,976
Net Capital		<b>71,300,348</b>	68,733,392
Risk-weighted Assets	(f)	<b>574,015,043</b>	529,232,054

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

- (a) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

# Notes to the Unaudited Condensed Consolidated Financial Statements

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

## 48 FINANCIAL RISK MANAGEMENT (Continued)

### 48.5 Capital management (Continued)

Pursuant to the "Capital Rules for Commercial Banks (Provisional)": (Continued)

- (b) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation).
- (c) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (d) The Group's Additional Tier-one Capital includes preferred shares and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

### 48.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the condensed consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the condensed consolidated financial statements either.

	As at 30 June 2017	As at 31 December 2016
Entrusted loans	<b>134,896,717</b>	122,015,997
Entrusted wealth management products	<b>78,335,540</b>	71,448,851

## 49 SUBSEQUENT EVENT

On 25 August 2017, the Board of Directors approved the proposed dividend payment to offshore preferred shareholders amounting to USD54,266,666.67, which include payment of USD48,840,000 to offshore preferred shareholders based on the coupon rate of 5.5% and USD5,426,666.67 being withholding income tax at 10% in accordance with the relevant regulations.

## Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

### 1 LIQUIDITY RATIOS

	As at 30 June 2017	As at 31 December 2016
RMB current assets to RMB current liabilities	<b>30.63%</b>	39.00%
Foreign currency current assets to foreign currency current liabilities	<b>262.18%</b>	174.33%

### 2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
<b>As at 30 June 2017</b>				
Spot assets	<b>13,245,575</b>	<b>80,779</b>	<b>166,740</b>	<b>13,493,094</b>
Spot liabilities	<b>(21,053,656)</b>	<b>(10,511)</b>	<b>(152,734)</b>	<b>(21,216,901)</b>
Forward purchases	<b>14,405,474</b>	–	–	<b>14,405,474</b>
Forward sales	<b>(139,027)</b>	–	–	<b>(139,027)</b>
Net long/(short) position	<b>6,458,366</b>	<b>70,268</b>	<b>14,006</b>	<b>6,542,640</b>
<b>As at 31 December 2016</b>				
Spot assets	10,275,499	91,692	81,757	10,448,948
Spot liabilities	(12,018,765)	(15,260)	(38,373)	(12,072,398)
Forward purchases	8,335,835	–	–	8,335,835
Forward sales	(78,682)	–	–	(78,682)
Net long/(short) position	6,513,887	76,432	43,384	6,633,703

## Appendix I – Unaudited Supplementary Financial Information

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

### 3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

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

	Banks and other financial institutions	Non-bank private institutions	Total
<b>As at 30 June 2017</b>			
Asia Pacific excluding China mainland	9,830,326	1,553,793	11,384,119
– Hong Kong	9,822,594	–	9,822,594
Europe	30,734	–	30,734
North and South America	167,756	–	167,756
Oceania	1,057	–	1,057
Subtotal	10,029,873	1,553,793	11,583,666
<b>As at 31 December 2016</b>			
Asia Pacific excluding China mainland	8,646,904	1,539,932	10,186,836
– Hong Kong	6,129,424	–	6,129,424
Europe	6,178	–	6,178
North and South America	254,724	–	254,724
Subtotal	8,907,806	1,539,932	10,447,738



## Appendix I – Unaudited Supplementary Financial Information

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

### 4 LOANS AND ADVANCES TO CUSTOMERS

#### 4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 30 June 2017	As at 31 December 2016
Total loans and advances to customers which have been overdue for		
within 3 months	1,183,339	1,609,183
between 3 to 6 months	1,646,015	1,444,741
between 6 to 12 months	1,295,269	1,736,717
over 12 months	1,362,770	1,273,821
	<b>5,487,393</b>	6,064,462
Percentage		
within 3 months	21.56%	26.53%
between 3 to 6 months	30.00%	23.82%
between 6 to 12 months	23.60%	28.65%
over 12 months	24.84%	21.00%
	<b>100.00%</b>	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
<b>As at 30 June 2017</b>			
Overdue loans and advances to customers	5,179,719	307,674	5,487,393
Individually assessed	(1,300,786)	(100,894)	(1,401,680)
Collectively assessed	(1,930,368)	(110,249)	(2,040,617)
<b>As at 31 December 2016</b>			
Overdue loans and advances to customers	5,612,650	451,812	6,064,462
Individually assessed	(427,742)	(148,350)	(576,092)
Collectively assessed	(1,001,820)	(156,288)	(1,158,108)

## Appendix I – Unaudited Supplementary Financial Information

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

### 4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### 4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 30 June 2017	As at 31 December 2016
Fair value of collaterals		
Corporate loans	6,539,617	4,799,884
Personal loans and advances	1,538,920	1,294,957
	<b>8,078,537</b>	6,094,841

#### 4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
<b>As at 30 June 2017</b>			
Identified impaired loans and advances			
for which allowance is	2,956,525	186,789	3,143,314
Individually assessed	(1,315,398)	(100,894)	(1,416,292)
Collectively assessed	(954,321)	(32,054)	(986,375)
<b>As at 31 December 2016</b>			
Identified impaired loans and advances			
for which allowance is	2,554,400	412,906	2,967,306
Individually assessed	(487,099)	(148,350)	(635,449)
Collectively assessed	(491,854)	(152,352)	(644,206)



**徽商银行股份有限公司**  
Huishang Bank Corporation Limited