



---

# 2018中期報告

---

INTERIM REPORT

---

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

(於中華人民共和國註冊成立的股份有限公司)  
(A joint stock company incorporated in the People's Republic of China with limited liability)

股份代號 Stock Code: 6196

優先股股份代號 Preference Shares Stock Code: 4613

# 2018



This interim report is printed on  
environment-friendly paper

# CONTENTS

|              |  |     |
|--------------|--|-----|
| CHAPTER I    | CORPORATE INFORMATION  | 2   |
| CHAPTER II   | HIGHLIGHTS OF ACCOUNTING DATA AND<br>MAJOR FINANCIAL INDICATORS      | 4   |
| CHAPTER III  | MANAGEMENT DISCUSSION AND ANALYSIS                                   | 7   |
| CHAPTER IV   | CHANGES IN SHARE CAPITAL AND<br>INFORMATION ON SHAREHOLDERS          | 58  |
| CHAPTER V    | DIRECTORS, SUPERVISORS, SENIOR<br>MANAGEMENT, STAFF AND INSTITUTIONS | 70  |
| CHAPTER VI   | CORPORATE GOVERNANCE   | 77  |
| CHAPTER VII  | SIGNIFICANT EVENTS   | 80  |
| CHAPTER VIII | ORGANIZATIONAL STRUCTURE   | 85  |
| CHAPTER IX   | INTERIM FINANCIAL REPORT   | 86  |
|              | DEFINITIONS  | 234 |

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

# CHAPTER I CORPORATE INFORMATION

## 1. BASIC INFORMATION

|  |  |
|--|--|
| Legal name in Chinese:                       | 鄭州銀行股份有限公司*  |
| Legal name in English:                       | Bank of Zhengzhou Co., Ltd.*   |
| Legal representative:                        | Mr. WANG Tianyu  |
| Authorised representatives:                  | Mr. WANG Tianyu, Mr. FU Chunqiao   |
| Board secretary:                             | Mr. FU Chunqiao  |
| Joint company secretaries:                   | Mr. FU Chunqiao, Ms. LEUNG Wing Han Sharon   |
| Stock exchange on which H Shares are listed: | The Hong Kong Stock Exchange   |
| Stock abbreviation:                          | BANK OF ZHENGZHOU  |
| H Shares stock code:                         | 6196   |
| Offshore Preference Shares stock code:       | 4613   |
| Unified social credit code:                  | 914100001699995779   |
| Financial licence number:                    | B1036H241010001  |
| Registered address and office address:       | 22 Shangwu Waihuan Road, Zhengdong New District,<br>Zhengzhou, Henan Province, China |
| Principal place of business in Hong Kong:    | 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong<br>Kong                   |
| Contact address:                             | 22 Shangwu Waihuan Road, Zhengdong New District,<br>Zhengzhou, Henan Province, China |
| Tel:   | +86-0371-6700 9199   |
| Fax:   | +86-0371-6700 9898   |
| E-mail:                                      | ir@zzbank.cn   |
| Website:                                     | www.zzbank.cn  |
| Auditor:                                     | KPMG   |
| PRC legal advisor:                           | King & Wood Mallesons (Beijing)  |
| Hong Kong legal advisor:                     | King & Wood Mallesons  |
| H Share Registrar:                           | Computershare Hong Kong Investor Services Limited                                    |
| Trustee agency for Domestic Shares:          | China Securities Depository and Clearing Corporation Limited                         |

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

## CHAPTER I CORPORATE INFORMATION (CONTINUED)

### 2. COMPANY PROFILE

Bank of Zhengzhou is a regional joint stock commercial bank incorporated in November 1996 upon the approval by the PBoC, based on 48 city credit cooperatives in Zhengzhou City. The Bank was renamed as Zhengzhou Commercial Bank Co., Ltd. in December 2000 and Bank of Zhengzhou Co., Ltd. in October 2009. The Bank was listed on the main board of the Hong Kong Stock Exchange in December 2015, becoming the first listed city commercial bank in Henan Province and the tenth in China. Currently, the Bank has already established Jiuding Financial Leasing Company (九鼎金融租賃公司) and manages 7 county banks at Zhongmu, Xinmi, Yanling, Fugou, Xinzheng, Xunxian and Queshan and its comprehensive business operation has proceeded steadily.

As at June 30, 2018, the Bank had 4,313 employees and 166 institutions for conducting external business, comprised of 12 branches, 153 sub-branches (including the operation division of the headquarters) and one specialized section. With its scale of assets amounting to RMB443,636 million, balance of deposits amounting to RMB263,113 million, balance of loans amounting to RMB134,826 million and its capital adequacy ratio of 12.88%, non-performing loan (“NPL”) ratio of 1.88% and allowance to NPL ratio of 166.86%, the Bank has met all regulatory requirements in respect of major indicators. In the list of “Top 1,000 World Banks 2018” published by the UK magazine “The Banker”, the Bank ranked 245th on Tier-one capital, representing 77 places up year-on-year and being among the top 300 for the first time. The Bank also received an award for “the Best Financial Innovation” in the “Financial Innovation Award in China 2018” public vote organized by “The Chinese Banker”.

### 3. MAJOR AWARDS IN THE FIRST HALF OF 2018

In May 2018, the Bank was awarded the “Enterprise with Outstanding Contribution to Industrial Development of Zhengzhou in 2017” (2017年度鄭州市產業發展突出貢獻企業) by Zhengzhou Municipal Committee of the CPC and the People’s Government of Zhengzhou.

In June 2018, in the “Financial Innovation Award in China 2018” public vote organized by “The Chinese Banker”, the Bank received “the Best Financial Innovation” comprehensive award. It also received three awards, namely the “Top Ten Financial Innovation Award (corporate business)”, the “Top Ten Financial Innovation Award (retail business)” and the “Top Ten FinTech Product Innovation Award” for its three product innovation cases, namely the “Cloud Financing (雲融資)”, the “Labor Union Card Wealth Management for Charity (慈善家工會卡理財)” and the “Intelligent Online Robots (在線智能機器人)”.

In June 2018, in the “China Internet in the Past 20 Years and Top 1,000 Brands of the Great Power (中國互聯網20年暨大國品牌1000強)” public vote organized by “China Internet Weekly” of Chinese Academy of Sciences as well as the Center for Informatization Study of Chinese Academy of Social Sciences, the Bank’s “Ding Rong Yi (鼎融易)” was awarded the “Prize for Brand of the Great Power for China Internet in the Past 20 Years (中國互聯網20年大國品牌獎)”.

## CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

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

In respect of the financial statements of the Bank prepared under the PRC GAAP (China Accounting Standards) and International Financial Reporting Standards, there is no difference between the net profit attributable to shareholders for the Reporting Period ended June 30, 2018 and net profit attributable to shareholders as at the end of the Reporting Period.

|   | For the six months ended June 30                                    |         |                           |
|---|---|---------|---------------------------|
|   | 2018  | 2017    | 2018 vs. 2017             |
|   | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |         |                           |
| <b>Operating Results</b>                                      |   |         | <b>Rate of change (%)</b> |
| Net interest income   | <b>2,822</b>  | 4,060   | (30.49)                   |
| Net fee and commission income                                 | <b>959</b>  | 909     | 5.50                      |
| Operating income  | <b>5,137</b>  | 4,860   | 5.70                      |
| Operating expenses  | <b>(1,429)</b>  | (1,134) | 26.01                     |
| Provision of impairment losses on assets                      | <b>(697)</b>  | (737)   | (5.43)                    |
| Profit before taxation  | <b>3,037</b>  | 3,008   | 0.96                      |
| Net profit  | <b>2,383</b>  | 2,325   | 2.49                      |
| Net profit attributable to shareholders of the Bank           | <b>2,367</b>  | 2,271   | 4.23                      |
| <b>Calculated on a per share basis (RMB)</b>                  |   |         | <b>Rate of change (%)</b> |
| Net assets per share attributable to shareholders of the Bank | <b>4.86</b>   | 4.21    | 15.44                     |
| Earnings per share  | <b>0.44</b>   | 0.43    | 2.33                      |
| <b>Profitability Indicators (%)</b>                           |   |         | <b>Change</b>             |
| Return on average total assets <sup>(1)</sup>                 | <b>1.08</b>   | 1.19    | (0.11)                    |
| Return on average equity <sup>(2)</sup>                       | <b>18.84</b>  | 20.80   | (1.96)                    |
| Net interest spread <sup>(3)</sup>                            | <b>1.58</b>   | 2.05    | (0.47)                    |
| Net interest margin <sup>* (4)</sup>                          | <b>1.48</b>   | 2.20    | (0.72)                    |
| Net fee and commission income to operating income             | <b>18.67</b>  | 18.70   | (0.03)                    |
| Cost-to-income ratio <sup>(5)</sup>                           | <b>26.99</b>  | 22.60   | 4.39                      |

\* The Bank has implemented new standards for financial instruments since January 1, 2018, the net interest margin for the Reporting Period shall be 2.02% when calculated in accordance with IAS39.

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

|   | <b>As at<br/>June 30,<br/>2018</b> | As at<br>December 31,<br>2017 | End of first half of<br>2018 vs.<br>end of 2017 |
|---|------------------------------------|-------------------------------|---|
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i>                   |                                    |                               |   |
| <b>Capital adequacy ratio indicators<sup>(6)</sup> (%)</b>                            |                                    |                               | <b>Change</b>                                   |
| Calculated based on the "Administrative Measures for the Capital of Commercial Banks" |                                    |                               |   |
| Core Tier-one capital adequacy ratio  | <b>7.81</b>                        | 7.93                          | (0.12)  |
| Tier-one capital adequacy ratio   | <b>10.19</b>                       | 10.49                         | (0.30)  |
| Capital adequacy ratio  | <b>12.88</b>                       | 13.53                         | (0.65)  |
| Total equity to total assets  | <b>7.86</b>                        | 7.67                          | 0.19  |
| <b>Asset quality indicators (%)</b>   |                                    |                               | <b>Change</b>                                   |
| Non-performing loan ratio <sup>(7)</sup>  | <b>1.88</b>                        | 1.50                          | 0.38  |
| Allowance to non-performing loans <sup>(8)</sup>                                      | <b>166.86</b>                      | 207.75                        | (40.89)   |
| Allowance to total loans <sup>(9)</sup>   | <b>3.14</b>                        | 3.11                          | 0.03  |
| <b>Other indicator (%)</b>  |                                    |                               | <b>Change</b>                                   |
| Loan-to-deposit ratio   | <b>52.90</b>                       | 50.29                         | 2.61  |
| <b>Scale indicators</b>   |                                    |                               | <b>Rate of Change (%)</b>                       |
| Total assets  | <b>443,636</b>                     | 435,828                       | 1.79  |
| Of which: Net loans and advances to customers   | <b>134,826</b>                     | 124,456                       | 8.33  |
| Total liabilities   | <b>408,744</b>                     | 402,388                       | 1.58  |
| Of which: Deposits from customers   | <b>263,113</b>                     | 255,407                       | 3.02  |
| Share capital   | <b>5,322</b>                       | 5,322                         | -   |
| Equity attributable to shareholders of the Bank                                       | <b>33,703</b>                      | 32,207                        | 4.64  |
| Non-controlling interests   | <b>1,189</b>                       | 1,233                         | (3.57)  |
| Total equity  | <b>34,892</b>                      | 33,440                        | 4.34  |

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

*Notes:*

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



# CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

## 1. PAST ECONOMY AND ENVIRONMENT AND FUTURE PROSPECTS

In the first half of 2018, faced with the extremely complicated and rigorous environment at home and abroad, the PRC government insisted on the general working principle of seeking progress while maintaining stability and persisted in implementing new development concepts. It proactively kept up with high quality development requirements, surmounted hardships and difficulties and worked with steady steps. As a result, the national economy continued the development momentum of overall stability with promising prospects, the structural adjustment further advanced, and new driving force succeeded the previous ones, which brought along steady improvement of quality and efficiency and a favorable step toward high quality development of the economy. In the first half of 2018, the gross domestic product (“GDP”) reached RMB41,896.1 billion, representing a year-on-year increase of 6.8% based on the comparable prices. From the perspective of quarters, the first quarter and the second quarter witnessed year-on-year increases of 6.8% and 6.7%, respectively, thus maintaining the increase range from 6.7% to 6.9% for 12 consecutive quarters. From the perspective of industries, the respective value added of the primary industry, the secondary industry and the tertiary industry reached RMB2,208.7 billion, RMB16,929.9 billion and RMB22,757.6 billion, representing a year-on-year increase of 3.2%, 6.1% and 7.6%, respectively. The national value added output of industrial enterprises above designated size increased by 6.7% year-on-year, declining by 0.1 percentage point as compared with the first quarter. The nationwide fixed asset investments (excluding those from farmers) reached RMB29,731.6 billion, representing a year-on-year increase of 6.0% and declining by 1.5 percentage points in terms of growth rate as compared with the first quarter. The national consumer price index increased by 2.0% year-on-year, which was 0.1 percentage point lower than that of the first quarter. The producer price index for industrial products increased by 3.9% year-on-year, which was 0.2 percentage points higher than that of the first quarter. As at the end of June 2018, the balance of broad money (M2) amounted to RMB177.02 trillion, representing a year-on-year increase of 8%, 0.3 percentage points and 1.1 percentage points lower than that at the end of the previous month and the corresponding period of the previous year in respect of growth rate, respectively. The balance of RMB loans amounted to RMB129.15 trillion, representing a year-on-year increase of 12.7%, 0.1 percentage point higher than that at the end of the previous month and 0.2 percentage points lower than that of the corresponding period of the previous year in respect of growth rate, respectively. The balance of RMB deposits amounted to RMB173.12 trillion, representing a year-on-year increase of 8.4%, 0.5 percentage points and 0.8 percentage points lower than that at the end of the previous month and the corresponding period of the previous year in respect of growth rate, respectively. In June 2018, the weighted average interest rate of interbank borrowings was 2.73%, which was 0.01 percentage point higher than that of the previous month and 0.21 percentage points lower than that of the corresponding period of the previous year; and the weighted average interest rate for pledged repurchase was 2.89%, which was 0.07 percentage points higher than that of the previous month and 0.14 percentage points lower than that of the corresponding period of the previous year. As at the end of June 2018, the total assets of domestic financial institutions in the banking industry reached RMB253.44 trillion, representing an increase of 7.1% as compared with the corresponding period of the previous year; the total liabilities amounted to RMB233.16 trillion, representing an increase of 6.8% as compared with the corresponding period of the previous year. The banking industry maintained steady operation on the whole, with overall risks under control and rather reasonable asset growth, and further strengthened its support for the real economy. Thanks to the preliminary containment of various market chaos in the banking industry, the continuous shrinkage of high-risk financial businesses and the restoration of order in the financial market, the banking industry continued to maintain its favorable momentum of steady operation.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the first half of 2018, Henan Province of the PRC, where the principal operations of the Bank are located, continued the general working principle of seeking progress while maintaining stability and adhered to new development concepts and the fundamental orientation of high quality development. It blazed new trails and worked with steady steps in accordance with the requirements of promoting the “four highlights” and achieving the “four missions”. Consequently, the provincial economy and society remained stable and healthy and continued the favorable momentum with optimized economic structure, fast growing new driving forces and ever-increasing quality and efficiency, which established a favorable start for high quality development. In the first half of 2018, GDP in the whole province reached RMB2,224,451 million, representing a year-on-year increase of 7.8%, which was 1.0 percentage point higher than the national average. From the perspective of industries, the respective value added of the primary industry, the secondary industry and the tertiary industry amounted to RMB170,573 million, RMB1,069,488 million and RMB984,390 million, representing year-on-year increases of 2.3%, 7.7% and 9.1%, respectively. The value added output of industrial enterprises above designated size of the province increased by 7.7%, which was basically the same as that of the first quarter and 1.0 percentage point higher than the national average. Fixed asset investments of the province increased by 9.3%, which was 3.3 percentage points higher than the national average. The consumer price index increased by 2.4% year-on-year, maintaining a moderate growth rate. The producer price index for industrial products increased by 4.6% year-on-year, declining by 0.1 percentage point as compared with that of the first quarter. The financial operations in Henan Province remained stable on the whole. As at the end of June 2018, the balance of RMB deposits amounted to RMB6,298.01 billion, representing a year-on-year increase of 6.1%, 1.7 percentage points lower than that of the previous month in respect of growth rate, and the balance of RMB loans amounted to RMB4,487.68 billion, representing a year-on-year increase of 12.7%, 0.1 percentage point lower than that of the previous month in respect of growth rate.

Since 2018, the domestic economy has continued its steady growth momentum with continuously optimized economic structure, constantly improving quality and efficiency and accelerating replacement of new driving forces with the former. As the reform and opening up progressively generated achievements, prices of commodities rose moderately and employment plateaued in general, the objective of high quality development has embraced a positive opening. Looking ahead to the second half of the year, such problems as explicit risks in the financial market and downward pressure of demands will become conspicuous. Nonetheless, our national economy has strong tenacity, potential and stability. The macro-policies are expected to remain stable, and expansionary fiscal policies will become more expansive. There will also be further intensified effort on tax breaks and rate reductions, prudent monetary policy with appropriate control, well-balanced social financing scale and reasonable and sufficient liquidity. In view of the foregoing, the domestic economy is expected to maintain stable on the whole in spite of an inclination of modest downwardness.

In the second half of 2018, in the face of the new economic and financial regulatory situations, the Bank will pay extra attention to high quality development and uphold the performance without makeshifts and overstatements through optimized structure, refined management and strict risk control; it will further emphasize development via transformation so as to overtake its peers in the nick of time through the construction of the “three featured businesses”; and it will underline steady development, value and comply with regulations and conduct businesses in compliance with the regulations without crossing the red line and breaking the bottom line.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. OVERALL OPERATION OVERVIEW

In the first half of 2018, the entire staff of the Bank survived the test of all kinds of difficulties and risks and achieved remarkable results with concerted resolution and aggressive spirits and actions.

**Steady improvement of operating performance.** As at the end of June 2018, the Bank's scale of assets increased by RMB7,808 million to RMB443,636 million from the beginning of the year; balance of deposits increased by RMB7,706 million to RMB263,113 million from the beginning of the year; loan balance rose by RMB10,370 million to RMB134,826 million from the beginning of the year. The Bank realized net profits totaling RMB2,383 million with a year-on-year increase of RMB58 million or 2.49%. It recorded an intermediary business income of RMB994 million, with a year-on-year increase of RMB62 million or 6.65%. The Bank registered a capital adequacy ratio of 12.88%, an allowance to NPL ratio of 166.86% and an NPL ratio of 1.88%, which were in compliance with the regulatory requirements.

**Multiple breakthroughs in key work.** Firstly, the initial public offering of A Shares of the Bank was approved by the Stock Issuance Examination and Verification Committee of the CSRC. The Bank of Zhengzhou is expected to become the first A-share listed bank in Henan and the first A+H listed city commercial bank in China. Secondly, the new core system was successfully launched, indicating that the scientific and technological level of the Bank of Zhengzhou is in the leading position among city commercial banks across the country. Thirdly, the B-type independent underwriter qualification was approved, which opened a new window for the Bank's in-depth cooperation with key enterprises in the province. Fourthly, it initiated the establishment of the first commerce and logistics bank alliance in the country with 15 industry leaders and 14 financial institutions as the first members of the alliance. It released the Report on China Commerce and Logistics Bank Research and Industry Development 2017 (《中國商貿物流銀行研究暨行業發展報告2017》), which received a strong response from the industry.

**Transformation and development under stable progress.** In respect of commerce and finance, the Bank launched the brand building of commercial and logistics banks; set up institutional customer centers; introduced 1+N solutions for the automobile and construction industry; implemented innovative business such as the export drawback pool and bill pool and implemented the cooperation with strategic customers such as S.F. Express, Eternal Asia and Haier Home. It continued to improve the construction of the "five clouds" platform and vigorously promoted the "nine strategies to improve deposits". In respect of providing financial services for citizens, it actively promoted the construction of 50 retail model banks, promoted payment of bills, carried out the interconnection of savings and loans, and built a spiral growth mechanism of "deposit-finance". For small and micro finance, the Bank set up a centralized operation center for credit factories, launched stratification of small and micro customers and vigorously expanded financial cooperation on platforms such as Baidu Finance (百度金融) and Ant Financial (螞蟻金服).

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. ANALYSIS OF INCOME STATEMENT

|  | For the six months ended June 30                                    |         |         |                    |
|--|---|---------|---------|--------------------|
|  | 2018  | 2017    | Change  | Rate of change (%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |         |         |                    |
| Interest income  | 8,921   | 8,537   | 384     | 4.50               |
| Interest expense                                       | (6,099)   | (4,477) | (1,622) | 36.23              |
| <b>Net interest income</b>                             | <b>2,822</b>  | 4,060   | (1,238) | (30.49)            |
| Fee and commission income                              | 994   | 932     | 62      | 6.65               |
| Fee and commission expense                             | (35)  | (23)    | (12)    | 52.17              |
| <b>Net fee and commission income</b>                   | <b>959</b>  | 909     | 50      | 5.50               |
| Net trading losses                                     | (71)  | (163)   | 92      | (56.44)            |
| Net gains arising from investments                     | 1,416   | 33      | 1,383   | 4,190.91           |
| Other operating income                                 | 11  | 21      | (10)    | (47.62)            |
| <b>Operating income</b>                                | <b>5,137</b>  | 4,860   | 277     | 5.70               |
| Operating expenses                                     | (1,429)   | (1,134) | (295)   | 26.01              |
| Provision of impairment losses<br>on assets            | (697)   | (737)   | 40      | (5.43)             |
| <b>Operating profit</b>                                | <b>3,011</b>  | 2,989   | 22      | 0.74               |
| Share of profits of associates                         | 26  | 19      | 7       | 36.84              |
| <b>Profit before taxation</b>                          | <b>3,037</b>  | 3,008   | 29      | 0.96               |
| Income tax expense                                     | (654)   | (683)   | 29      | (4.25)             |
| <b>Net profit</b>                                      | <b>2,383</b>  | 2,325   | 58      | 2.49               |
| Net profit attributable to<br>shareholders of the Bank | 2,367   | 2,271   | 96      | 4.23               |
| Non-controlling interests                              | 16  | 54      | (38)    | (70.37)            |

In the first half of 2018, the Bank recorded profit before taxation and net profit of RMB3,037 million and RMB2,383 million, representing increases of 0.96% and 2.49% as compared with the same period of last year, respectively.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.1 Net Interest Income, Net Interest Spread and Net Interest Margin

In the first half of 2018, the Bank recorded net interest income of RMB2,822 million, representing a decrease of RMB1,238 million or 30.49% as compared with the same period of last year, which accounted for 54.93% of the operating income. Among this, a decrease in net interest income of RMB263 million was attributable to the adjustment to the Bank's business scale and a decline in net interest income of RMB975 million was attributable to the changes in yield or cost rate.

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

|  | For the six months ended June 30                                    |                 |                   |                                |                 |                   |
|--|---|-----------------|-------------------|--------------------------------|-----------------|-------------------|
|  | 2018  |                 |                   | 2017                           |                 |                   |
|  | Average balance <sup>(6)</sup>                                      | Interest income | Average yield (%) | Average balance <sup>(6)</sup> | Interest income | Average yield (%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                 |                   |                                |                 |                   |
| <b>Interest-earning assets</b>   |   |                 |                   |                                |                 |                   |
| Loans and advances to customers  | 131,756   | 3,758           | 5.70              | 118,388                        | 3,171           | 5.36              |
| Investment in securities and other financial assets <sup>(1)</sup>     | 178,915   | 4,201           | 4.70              | 186,177                        | 4,514           | 4.85              |
| Deposits with the Central Bank   | 35,606  | 266             | 1.49              | 30,750                         | 232             | 1.51              |
| Amounts due from banks and other financial institutions <sup>(2)</sup> | 23,861  | 358             | 3.00              | 26,857                         | 363             | 2.70              |
| Finance lease receivables  | 12,259  | 338             | 5.51              | 7,395                          | 257             | 6.95              |
| <b>Total interest-earning assets</b>                                   | <b>382,397</b>  | <b>8,921</b>    | <b>4.67</b>       | <b>369,567</b>                 | <b>8,537</b>    | <b>4.62</b>       |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the six months ended June 30

|  | 2018                           |                  |                  | 2017                           |                  |                  |
|--|--------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|  | Average balance <sup>(6)</sup> | Interest expense | Average cost (%) | Average balance <sup>(6)</sup> | Interest expense | Average cost (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i>  |                                |                  |                  |                                |                  |                  |
| <b>Interest-bearing liabilities</b>                                  |                                |                  |                  |                                |                  |                  |
| Deposits from customers  | 245,786                        | 2,731            | 2.22             | 215,571                        | 2,059            | 1.91             |
| Amounts due to banks and other financial institutions <sup>(2)</sup> | 71,457                         | 1,596            | 4.46             | 76,099                         | 1,323            | 3.48             |
| Debt securities issued   | 75,145                         | 1,743            | 4.64             | 55,397                         | 1,083            | 3.91             |
| Due to the Central Bank  | 1,792                          | 29               | 3.24             | 743                            | 12               | 3.23             |
| <b>Total interest-bearing liabilities</b>                            | <b>394,180</b>                 | <b>6,099</b>     | <b>3.09</b>      | <b>347,810</b>                 | <b>4,477</b>     | <b>2.57</b>      |
| <b>Net interest income</b>   |                                | <b>2,822</b>     |                  |                                | <b>4,060</b>     |                  |
| <b>Net interest spread<sup>(4)</sup></b>                             |                                |                  | <b>1.58</b>      |                                |                  | <b>2.05</b>      |
| <b>Net interest margin<sup>(5)</sup></b>                             |                                |                  | <b>1.48</b>      |                                |                  | <b>2.20</b>      |

\* The Bank has implemented new standards for financial instruments since January 1, 2018, the net interest margin for the Reporting Period shall be 2.02% when calculated in accordance with IAS39.

Notes:

- (1) As the Bank has implemented new standards for financial instruments from January 1, 2018, the interest-earning assets in 2018 include financial assets measured at amortised cost, bonds in financial investments at fair value through profit or loss and bonds in financial investments at fair value through other comprehensive income; and the assets in 2017 include available-for-sale financial assets, held-to-maturity investments and loans and receivables.
- (2) Consisted of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
- (3) Consisted of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of the balances.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

|  | For the six months ended June 30<br>2018 vs 2017    |   |  |
|--|---|---|--|
|  | Increase/(decrease) due to<br>Volume <sup>(1)</sup> | Increase/(decrease) due to<br>Rate <sup>(2)</sup> | Net increase/<br>(decrease) <sup>(3)</sup> |
| <i>(Expressed in millions of RMB)</i>                      |   |   |  |
| <b>Interest-earning assets</b>                             |   |   |  |
| Loans and advances to customers                            | 358   | 229   | 587  |
| Investment in securities and other financial assets        | (176)   | (137)   | (313)                                      |
| Deposits with the Central Bank                             | 37  | (3)   | 34   |
| Amounts due from banks and<br>other financial institutions | (40)  | 35  | (5)  |
| Finance lease receivables                                  | 169   | (88)  | 81   |
| <b>Changes in interest income</b>                          | <b>348</b>  | <b>36</b>   | <b>384</b>                                 |
| <b>Interest-bearing liabilities</b>                        |   |   |  |
| Deposits from customers                                    | 289   | 383   | 672  |
| Amounts due to banks and<br>other financial institutions   | (81)  | 354   | 273  |
| Debt securities issued                                     | 386   | 274   | 660  |
| Due to the Central Bank                                    | 17  | –   | 17   |
| <b>Changes in interest expense</b>                         | <b>611</b>  | <b>1,011</b>                                      | <b>1,622</b>                               |

Notes:

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

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.2 Interest Income

In the first half of 2018, the Bank's interest income increased by RMB384 million or 4.50% to RMB8,921 million as compared with the same period of last year, which was primarily attributable to the increase in the volume of the loans and advances to customers, the increase in the volume of finance lease receivables, and the increase in the volume of deposits with the central bank.

#### 3.2.1 Interest income from loans and advances to customers

In the first half of 2018, interest income from loans and advances to customers of the Bank increased by RMB587 million or 18.51% to RMB3,758 million as compared with the same period of last year, primarily as a result of the increase of RMB13,368 million in the average balance of loans and advances to customers, which mainly reflected the overall growth of the Bank's loan business.

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

|  | For the six months ended June 30                                    |                    |                         |                    |                    |                         |
|--|---|--------------------|-------------------------|--------------------|--------------------|-------------------------|
|  | 2018  |                    |                         | 2017               |                    |                         |
|  | Average<br>balance  | Interest<br>income | Average<br>yield<br>(%) | Average<br>balance | Interest<br>income | Average<br>yield<br>(%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                    |                         |                    |                    |                         |
| Corporate loans                                      | 91,693  | 2,614              | 5.70                    | 87,232             | 2,417              | 5.54                    |
| Personal loans                                       | 36,020  | 1,066              | 5.92                    | 26,629             | 749                | 5.63                    |
| Discounted bills                                     | 4,043   | 78                 | 3.86                    | 4,527              | 5                  | 0.22                    |
| <b>Total loans and<br/>advances to<br/>customers</b> | <b>131,756</b>  | <b>3,758</b>       | <b>5.70</b>             | 118,388            | 3,171              | 5.36                    |



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **3.2.2 Interest income from investment securities and other financial assets**

In the first half of 2018, interest income from investment securities and other financial assets of the Bank decreased by RMB313 million or 6.93% to RMB4,201 million as compared with the same period of last year, principally attributable to the decrease of RMB7,262 million in the average balance of investment securities and other financial assets. It was mainly due to the implementation of new standards for financial instruments by the Bank from January 1, 2018, certain financial investments classified as loans and receivables under the old standards were measured at fair value rather than as interest-earning assets in accordance with the new standards, and the gains received during the holding period were included in investment income. As of June 30, 2018, the balance of these assets was RMB44,487 million.

### **3.2.3 Interest income from deposits with the Central Bank**

In the first half of 2018, interest income from deposits with the Central Bank of the Bank increased by RMB34 million or 14.66% year-on-year to RMB266 million, primarily attributable to the increase in the average balance of deposits with the Central Bank, which among other things was primarily caused by the increase in the statutory deposit reserve along with the growth of deposits from customers.

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

In the first half of 2018, interest income from amounts due from banks and other financial institutions of the Bank decreased by RMB5 million or 1.38% to RMB358 million as compared with the same period of last year, which was primarily attributable to the decrease of RMB2,996 million in the average balance of the amounts due from banks and other financial institutions.

### **3.2.5 Interest income from finance lease receivables**

In the first half of 2018, interest income from finance lease receivables increased by RMB81 million or 31.52% to RMB338 million as compared with the same period of last year, which was primarily attributable to the increase of RMB4,864 million in the average balance of finance lease receivables of Jiuding Financial Leasing Company, a subsidiary of the Bank.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.3 Interest Expense

In the first half of 2018, the Bank's interest expense increased by RMB1,622 million or 36.23% to RMB6,099 million as compared with the same period of last year, which was primarily attributable to the increase in the volume and the rise in the cost rate of deposits from customers, the increase in the average balance and the rise in the cost rate of debt securities issued, and the rise in the cost rate of amounts due to banks and other financial institutions.

#### 3.3.1 Interest expense on deposits from customers

In the first half of 2018, the Bank's interest expense on deposits from customers increased by RMB672 million or 32.64% to RMB2,731 million as compared with the same period of last year, primarily attributable to the continuous growth of the Bank's deposit business resulting from the Bank's constant efforts in the expansion of its customer base and branch network. The increase in the average cost of deposits from customers was primarily attributable to the market interest rate fluctuations.

|   | For the six months ended June 30 |                     |                        |                    |                     |                        |
|---|----------------------------------|---------------------|------------------------|--------------------|---------------------|------------------------|
|   | 2018                             |                     |                        | 2017               |                     |                        |
|   | Average<br>balance               | Interest<br>expense | Average<br>cost<br>(%) | Average<br>balance | Interest<br>expense | Average<br>cost<br>(%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                                  |                     |                        |                    |                     |                        |
| <b>Corporate deposits</b>   |                                  |                     |                        |                    |                     |                        |
| Demand  | 82,919                           | 222                 | 0.54                   | 72,665             | 188                 | 0.52                   |
| Time  | 78,934                           | 1,718               | 4.35                   | 60,876             | 1,115               | 3.66                   |
| Subtotal  | 161,853                          | 1,940               | 2.40                   | 133,541            | 1,303               | 1.95                   |
| <b>Personal deposits</b>  |                                  |                     |                        |                    |                     |                        |
| Demand  | 17,064                           | 44                  | 0.52                   | 14,929             | 34                  | 0.46                   |
| Time  | 47,136                           | 623                 | 2.64                   | 45,900             | 535                 | 2.33                   |
| Subtotal  | 64,200                           | 667                 | 2.08                   | 60,829             | 569                 | 1.87                   |
| <b>Others</b>   | 19,733                           | 124                 | 1.26                   | 21,201             | 187                 | 1.76                   |
| <b>Total deposits<br/>from customers</b>                            | <b>245,786</b>                   | <b>2,731</b>        | <b>2.22</b>            | 215,571            | 2,059               | 1.91                   |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In the first half of 2018, the Bank's interest expense on amounts due to banks and other financial institutions increased by RMB273 million or 20.63% to RMB1,596 million as compared with the same period of last year, which was primarily attributable to the rise in the average cost rate of amounts due to banks and other financial institutions in the first half of 2018.

### **3.3.3 Interest expense on debt securities issued**

In the first half of 2018, the Bank's interest expense on debt securities issued increased by RMB660 million or 60.94% to RMB1,743 million as compared with the same period of last year, which was primarily attributable to the increase of RMB19,748 million in the average balance of debt securities issued as compared with the same period of last year. The increase in the average cost rate for the debt securities issued was primarily attributable to the fluctuations in market interest rates.

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

The Bank's net interest spread decreased from 2.05% for the same period of last year to 1.58% for the current year, while the Bank's net interest margin decreased from 2.20% for the same period of last year to 1.48% for the current year. The decline in net interest spread and net interest margin was primarily attributable to (i) the decline in the average yield of loans and advances to customers, investment securities and other financial assets and other major interest-earning assets resulting from the interest rate liberalization; (ii) the increase of average cost rate of interest-bearing liabilities, such as amounts due to banks and other financial institutions and debt securities issued, resulting from the continuous promotion of financial deleveraging; (iii) certain financial investments classified as loans and receivables under the old standards were measured at fair value rather than as interest-earning assets in accordance with the new standards due to the implementation of new standards for financial instruments by the Bank from January 1, 2018, and the gains arising therefrom were included in investment income.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.4 Non-interest Income

#### 3.4.1 Net fee and commission income

In the first half of 2018, the Bank's net fee and commission income increased by RMB50 million or 5.50% to RMB959 million as compared with the same period of last year, which was primarily attributable to the increase in fee and commission income, which in turn reflected the overall growth of the Bank's fee and commission business.

|  | For the six months ended June 30                                    |             |             |                    |
|--|---|-------------|-------------|--------------------|
|  | 2018  | 2017        | Change      | Rate of change (%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |             |             |                    |
| <b>Fee and commission income</b>       |   |             |             |                    |
| Agency and custody services fees       | 653   | 569         | 84          | 14.76              |
| Underwriting and advisory fees         | 228   | 260         | (32)        | (12.31)            |
| Acceptance and guarantee services fees | 61  | 61          | –           | –                  |
| Bank card services fees                | 46  | 37          | 9           | 24.32              |
| Others                                 | 6   | 5           | 1           | 20.00              |
| Subtotal                               | 994   | 932         | 62          | 6.65               |
| <b>Fee and commission expense</b>      | <b>(35)</b>   | <b>(23)</b> | <b>(12)</b> | <b>52.17</b>       |
| <b>Net fee and commission income</b>   | <b>959</b>  | <b>909</b>  | <b>50</b>   | <b>5.50</b>        |

In the first half of 2018, the Bank realized agency and custody services fees income of RMB653 million, up by RMB84 million or 14.76% year-on-year, primarily attributable to the increase in the scale of agency and custody services offered by the Bank.

In the first half of 2018, the Bank realized underwriting and advisory fees income of RMB228 million, declined by RMB32 million or 12.31% year-on-year, primarily attributable to the decrease in the advisory services offered by the Bank in the first half of 2018 as compared with the same period of last year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the first half of 2018, the Bank realized acceptance and guarantee services fees income of RMB61 million, the same as compared with the same period of last year.

In the first half of 2018, the Bank realized bank card services fees income of RMB46 million, up by RMB9 million or 24.32% year-on-year, primarily attributable to the continued increase in the number of bank cards issued by the Bank and the transaction amount.

### **3.4.2 Net trading losses**

In the first half of 2018, the Bank's net trading losses were RMB71 million, increasing by RMB92 million year-on-year, primarily attributable to the fluctuations in the fair value of the financial assets at fair value through profit or loss and the exchange rate of the U.S. dollar against RMB in the first half of 2018.

### **3.4.3 Net gains arising from investments**

In the first half of 2018, the Bank's net gains arising from investments increased by RMB1,383 million to RMB1,416 million as compared with the same period of last year, which was primarily attributable to certain financial investments classified as loans and receivables under the old standards were measured at fair value rather than as interest-earning assets in accordance with the new standards due to the implementation of new standards for financial instruments by the Bank from January 1, 2018, and the gains received during the holding period were included in investment income. As of June 30, 2018, the balance of these assets was RMB44,487 million, leading to an increase in net gains arising from investments over the same period of last year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.5 Operating Expenses

In the first half of 2018, the Bank's operating expenses increased by RMB295 million or 26.01% to RMB1,429 million as compared with the same period of last year, which was primarily attributable to the growth in staff costs, depreciation and amortisation and rental and property management expenses.

| <b>For the six months ended June 30</b>                             |              |       |        |                       |
|---|--------------|-------|--------|-----------------------|
|   | <b>2018</b>  | 2017  | Change | Rate of change<br>(%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |              |       |        |                       |
| Staff costs   | <b>803</b>   | 625   | 178    | 28.48                 |
| Depreciation and amortisation                                       | <b>148</b>   | 122   | 26     | 21.31                 |
| Rental and property management expenses                             | <b>97</b>    | 85    | 12     | 14.12                 |
| Office expenses   | <b>27</b>    | 32    | (5)    | (15.63)               |
| Tax and surcharges  | <b>43</b>    | 35    | 8      | 22.86                 |
| Other general and administrative expenses                           | <b>311</b>   | 235   | 76     | 32.34                 |
| <b>Total operating expenses</b>                                     | <b>1,429</b> | 1,134 | 295    | 26.01                 |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

|                                   | For the six months ended June 30                                    |            |            |                    |
|-----------------------------------|---|------------|------------|--------------------|
|                                   | 2018  | 2017       | Change     | Rate of change (%) |
|                                   | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |            |            |                    |
| <b>Staff costs</b>                |   |            |            |                    |
| Salaries, bonuses and allowances  | 565   | 449        | 116        | 25.84              |
| Social insurance and annuity      | 111   | 90         | 21         | 23.33              |
| Staff welfare                     | 75  | 45         | 30         | 66.67              |
| Housing allowances                | 33  | 27         | 6          | 22.22              |
| Supplementary retirement benefits | 3   | 1          | 2          | 200.00             |
| Others                            | 16  | 13         | 3          | 23.08              |
| <b>Total staff costs</b>          | <b>803</b>  | <b>625</b> | <b>178</b> | <b>28.48</b>       |

In the first half of 2018, the total staff costs of the Bank were RMB803 million, increasing by RMB178 million or 28.48% as compared with the same period of last year, which was primarily attributable to the increase in salary, bonus and staff allowance. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 56.19% and 55.11% of the total operating expenses in the first half of 2018 and the first half of 2017, respectively.

In the first half of 2018, depreciation and amortisation expenses amounted to RMB148 million, increasing by RMB26 million or 21.31% as compared with the same period of last year, which was primarily attributable to the increase of fixed assets and intangible assets depreciated and amortized given the expansion of the branch network and upgrading of information technology.

In the first half of 2018, rental and property management expenses were RMB97 million, increasing by RMB12 million or 14.12%, which was primarily attributable to the expansion of the branch network.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the first half of 2018, tax and surcharges were RMB43 million, increasing by RMB8 million or 22.86% as compared with the same period of last year, which was attributable to the increase in value added tax paid in the first half of 2018 led by the expansion of the Bank's business scale.

In the first half of 2018, office expenses were RMB27 million, decreasing by RMB5 million as compared with the same period of last year, which was primarily attributable to the decrease in the office costs and expenses of the Bank.

In the first half of 2018, other general and administrative expenses were RMB311 million, increasing by RMB76 million as compared with the same period of last year. Other general and administrative expenses primarily included marketing expenses, advertising expenses, travelling expenses and certain other expenses.

### 3.6 Impairment Losses

In the first half of 2018, the Bank's impairment losses decreased by RMB40 million or 5.43% to RMB697 million as compared with the same period of last year, which was primarily attributable to the decrease in the impairment losses of loans and advances to customers.

|  | <b>For the six months ended June 30</b>                             |      |        |                       |
|--|---|------|--------|-----------------------|
|  | <b>2018</b>   | 2017 | Change | Rate of change<br>(%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |      |        |                       |
| Impairment losses of loans and advances to customers                                     | <b>503</b>  | 640  | (137)  | (21.41)               |
| Impairment losses of financial investments classified as receivables                     | –   | 20   | (20)   | (100.00)              |
| Impairment losses of investment in financial assets measured at amortised cost           | <b>141</b>  | –    | 141    | –                     |
| Investment in financial assets measured at fair value through other comprehensive income | <b>(1)</b>  | –    | (1)    | –                     |
| Impairment losses of finance lease receivables   | <b>75</b>   | 90   | (15)   | (16.67)               |
| Impairment losses of financial assets held under resale agreements                       | <b>1</b>  | –    | 1      | –                     |
| Impairment losses of off-balance credit commitments                                      | <b>(22)</b>   | 3    | (25)   | (833.33)              |
| Others   | –   | (16) | 16     | (100.00)              |
| <b>Total provision for asset impairment losses</b>                                       | <b>697</b>  | 737  | (40)   | (5.43)                |



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.7 Income Tax Expenses

In the first half of 2018, the Bank's income tax decreased by RMB29 million or 4.25% to RMB654 million, which was primarily attributable to the income tax filing differences of the Bank in 2017.

|                                  | For the six months ended June 30                                    |            |             |                    |
|----------------------------------|---|------------|-------------|--------------------|
|                                  | 2018  | 2017       | Change      | Rate of change (%) |
|                                  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |            |             |                    |
| Current income tax               | 538   | 720        | (182)       | (25.28)            |
| Deferred income tax              | 172   | (39)       | 211         | (541.03)           |
| Adjustment for prior years       | (56)  | 2          | (58)        | (2,900.00)         |
| <b>Total income tax expenses</b> | <b>654</b>  | <b>683</b> | <b>(29)</b> | <b>(4.25)</b>      |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4. ANALYSIS OF KEY ITEMS OF FINANCIAL POSITION

#### 4.1 Assets

As at June 30, 2018, the Bank's total assets increased by RMB7,808 million or 1.79% to RMB443,636 million from the end of last year. The principal components of the Bank's assets consist of: (i) loans and advances to customers (net); and (ii) investment securities and other financial assets. These components increased by RMB10,370 million and RMB577 million, respectively, compared with the end of last year.

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

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| Gross loans and advances to customers                               | <b>139,190</b>      |                | 128,456                 |                |
| Allowance for impairment losses                                     | <b>(4,364)</b>      |                | (4,000)                 |                |
| Loans and advances to customers (net)                               | <b>134,826</b>      | <b>30.39</b>   | 124,456                 | 28.56          |
| Investment securities and other financial assets                    | <b>223,251</b>      | <b>50.32</b>   | 222,674                 | 51.08          |
| Cash and deposits with central bank                                 | <b>45,854</b>       | <b>10.34</b>   | 45,635                  | 10.47          |
| Deposits with banks and other financial institutions                | <b>2,484</b>        | <b>0.56</b>    | 4,724                   | 1.08           |
| Placements with banks and other financial institutions              | <b>6,136</b>        | <b>1.38</b>    | 15,298                  | 3.51           |
| Financial assets held under resale agreements                       | <b>10,141</b>       | <b>2.29</b>    | 4,407                   | 1.01           |
| Finance lease receivables   | <b>13,334</b>       | <b>3.01</b>    | 10,491                  | 2.41           |
| Other assets  | <b>7,610</b>        | <b>1.71</b>    | 8,143                   | 1.88           |
| <b>Total assets</b>   | <b>443,636</b>      | <b>100.00</b>  | 435,828                 | 100.00         |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4.1.1 Loans and advances to customers

As at June 30, 2018, the Bank's total loans and advances to customers increased by RMB10,734 million to RMB139,190 million, representing an increase of 8.36% as compared with the end of last year. Our loans and advances to customers consist primarily of corporate loans, personal loans and discounted bills.

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

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| Corporate loans   | 96,964              | 69.66          | 92,249                  | 71.81          |
| Personal loans  | 38,744              | 27.84          | 34,113                  | 26.56          |
| Discounted bills  | 3,482               | 2.50           | 2,094                   | 1.63           |
| <b>Total loans and advances to customers</b>                        | <b>139,190</b>      | <b>100.00</b>  | 128,456                 | 100.00         |

(1) *Corporate loans*

Corporate loans are the largest component of the Bank's loan portfolio. As at June 30, 2018, the Bank's corporate loans reached RMB96,964 million or 69.66% of the Bank's total loans and advances to customers, representing an increase of RMB4,715 million or 5.11% as compared with the end of last year. The increase was mainly due to the Bank's continued commitment to meet the capital requirements of the rapidly-growing wholesale and retail industry and to develop the loan business for small and micro enterprises; and the Bank's efforts to continuously strengthen the business cooperation with core quality clients in various sectors to sustain the growth of the relevant loan balance.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

|   | As at June 30, 2018 |                   | As at December 31, 2017 |                   |
|---|---------------------|-------------------|-------------------------|-------------------|
|   | Amount              | % of total<br>(%) | Amount                  | % of total<br>(%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                   |                         |                   |
| Unsecured loans   | 13,319              | 13.74             | 11,742                  | 12.73             |
| Guaranteed loans  | 37,911              | 39.10             | 32,551                  | 35.28             |
| Loans secured by mortgages  | 21,094              | 21.75             | 21,741                  | 23.57             |
| Loans secured by pledges  | 24,640              | 25.41             | 26,215                  | 28.42             |
| <b>Total corporate loans</b>  | <b>96,964</b>       | <b>100.00</b>     | 92,249                  | 100.00            |

(2) *Personal loans*

As at June 30, 2018, the Bank's personal loans increased by RMB4,631 million to RMB38,744 million, representing an increase of 13.58% as compared with the end of last year, mainly attributable to the continued growth in personal residential mortgage loans, personal business loans and credit card balances.

As at June 30, 2018, the personal residential mortgage loans increased by RMB2,609 million, representing an increase of 25.48% as compared with the end of last year and the personal business loans increased by RMB2,016 million, representing an increase of 15.69% as compared with the end of last year, mainly attributable to the continued promotion of the national centre city of Zhengzhou and other planning and construction which led to the growth of individual housing demand and business demand. The credit card balances increased by RMB280 million, representing an increase of 24.84% as compared with the end of last year, mainly attributable to the Bank's greater efforts in vigorously developing our credit card business.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| Personal business loans   | 14,868              | 38.38          | 12,852                  | 37.67          |
| Personal residential mortgage loans                                 | 12,850              | 33.17          | 10,241                  | 30.02          |
| Personal consumption loans  | 8,382               | 21.63          | 8,828                   | 25.88          |
| Auto loans  | 1,237               | 3.19           | 1,065                   | 3.12           |
| Credit card balances  | 1,407               | 3.63           | 1,127                   | 3.31           |
| <b>Total personal loans</b>   | <b>38,744</b>       | <b>100.00</b>  | <b>34,113</b>           | <b>100.00</b>  |

(3) *Discounted bills*

As at June 30, 2018, the Bank's discounted bills increased by RMB1,388 million to RMB3,482 million, representing an increase of 66.28% as compared with the end of last year. In the first half of 2018, the Bank flexibly adjusted the scale of bill financing to meet the business development requirements and clients' financing needs.

#### 4.1.2 *Investment securities and other financial assets*

As at June 30, 2018, the total amount of the Bank's investment securities and other financial assets increased by RMB577 million to RMB223,251 million, representing an increase of 0.26% as compared with the end of last year, which was basically the same as compared with the end of last year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

|  | As at June 30, 2018 |                   | As at December 31, 2017 |                   |
|--|---------------------|-------------------|-------------------------|-------------------|
|  | Amount              | % of total<br>(%) | Amount                  | % of total<br>(%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i>    |                     |                   |                         |                   |
| Government bonds   | 22,241              | 9.91              | 20,178                  | 9.04              |
| Debt securities issued by<br>policy banks                              | 30,445              | 13.56             | 30,253                  | 13.55             |
| Debt securities issued by<br>banks and other financial<br>institutions | 3,668               | 1.63              | 6,283                   | 2.81              |
| Debt securities issued by<br>corporate issuers                         | 10,055              | 4.48              | 7,505                   | 3.36              |
| Sub-total  | 66,409              | 29.58             | 64,219                  | 28.76             |
| Investment products under<br>trust schemes                             | 71,512              | 31.86             | 73,868                  | 33.08             |
| Investment products managed<br>by securities companies                 | 64,657              | 28.80             | 58,448                  | 26.17             |
| Others   | 21,899              | 9.76              | 26,771                  | 11.99             |
| Total  | 224,477             | 100.00            | 223,306                 | 100.00            |
| Less: Allowance for<br>impairment losses                               | (1,301)             |                   | (640)                   |                   |
| <b>Total fixed-income<br/>securities</b>                               | <b>223,176</b>      |                   | 222,666                 |                   |
| Equity instruments   | 8                   |                   | 8                       |                   |
| Derivative financial instruments                                       | 67                  |                   | -                       |                   |
| <b>Total investment securities<br/>and other financial assets</b>      | <b>223,251</b>      |                   | 222,674                 |                   |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **4.1.3 Other components of the Bank's assets**

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

As at June 30, 2018, the Bank's total cash and deposits with the Central Bank increased by RMB219 million to RMB45,854 million, representing an increase of 0.48% as compared with the end of last year, mainly due to the increase of our deposit reserves maintained with the PBoC as a result of an increase in our deposits.

As at June 30, 2018, the Bank's total financial assets held under resale agreements increased by RMB5,734 million to RMB10,141 million, representing an increase of 130.11% as compared with the end of last year, mainly due to the adjustments made by the Bank after taking into comprehensive consideration the need for matching assets and liabilities and the market liquidity.

As at June 30, 2018, the Bank's total finance lease receivables increased by RMB2,843 million to RMB13,334 million, representing an increase of 27.10% as compared with the end of last year, mainly due to the continuous expansion of the leasing business of Jiuding Financial Leasing Company, a subsidiary of the Bank.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4.2 Liabilities

As at June 30, 2018, the Bank's total liabilities increased by RMB6,356 million to RMB408,744 million, representing an increase of 1.58% as compared with the end of last year.

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| Due to the Central Bank   | 1,599               | 0.39           | 1,600                   | 0.40           |
| Deposits from customers   | 263,113             | 64.37          | 255,407                 | 63.47          |
| Deposits from banks and other financial institutions                | 27,778              | 6.80           | 28,934                  | 7.19           |
| Placements from banks and other financial institutions              | 18,045              | 4.41           | 22,348                  | 5.55           |
| Financial assets sold under repurchase agreements                   | 19,725              | 4.83           | 14,086                  | 3.50           |
| Debt securities issued  | 71,367              | 17.46          | 73,170                  | 18.18          |
| Derivative financial liabilities                                    | 45                  | 0.01           | 32                      | 0.01           |
| Other liabilities <sup>(1)</sup>                                    | 7,072               | 1.73           | 6,811                   | 1.70           |
| <b>Total liabilities</b>  | <b>408,744</b>      | <b>100.00</b>  | 402,388                 | 100.00         |

*Note:*

- (1) Consisted of interest payables, items in the process of clearance and settlement, tax payables, staff costs payable, dormant accounts, provisions, and certain other liabilities.



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4.2.1 Deposits from customers

As at June 30, 2018, the Bank's total deposits from customers increased by RMB7,706 million to RMB263,113 million, representing an increase of 3.02% as compared with the end of last year. The increase in the Bank's deposits from customers was primarily attributable to the general business growth generated by the Bank's continuous expansion of its deposit customers and branch network.

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

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| <b>Corporate deposits</b>   |                     |                |                         |                |
| Demand  | 89,499              | 34.02          | 88,514                  | 34.66          |
| Time  | 85,229              | 32.38          | 79,851                  | 31.27          |
| Sub-total   | 174,728             | 66.40          | 168,365                 | 65.93          |
| <b>Personal deposits</b>  |                     |                |                         |                |
| Demand  | 21,357              | 8.12           | 19,806                  | 7.75           |
| Time  | 48,033              | 18.26          | 47,757                  | 18.69          |
| Sub-total   | 69,390              | 26.38          | 67,563                  | 26.44          |
| <b>Other deposits</b>   | 18,995              | 7.22           | 19,479                  | 7.63           |
| <b>Total</b>  | <b>263,113</b>      | <b>100.00</b>  | 255,407                 | 100.00         |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **4.2.2 Deposits from banks and other financial institutions**

As at June 30, 2018, the balance of deposits from banks and other financial institutions of the Bank decreased by RMB1,156 million to RMB27,778 million, representing a decrease of 4.00% as compared with the end of last year, mainly due to the Bank's expansion of interbank source of funds so as to meet the changes in fund demand.

### **4.2.3 Placements from banks and other financial institutions**

As at June 30, 2018, the balance of placements from banks and other financial institutions of the Bank decreased by RMB4,303 million to RMB18,045 million, representing a decrease of 19.25% as compared with the end of last year. The changes in the placements from banks and other financial institutions mainly reflected the Bank's continuous expansion of source of funds so as to meet the changes in fund demand.

### **4.2.4 Financial assets sold under repurchase agreements**

As at June 30, 2018, the Bank's financial assets sold under repurchase agreements increased by RMB5,639 million to RMB19,725 million, representing an increase of 40.03% as compared with the end of last year, which mainly reflected the upward adjustment of the proportion of financial assets sold under repurchase agreements to the Bank's liabilities based on market liquidity and the Bank's capital needs after taking into consideration of the need for matching assets and liabilities.

### **4.2.5 Debt securities issued**

As at June 30, 2018, the Bank's debt securities issued decreased by RMB1,803 million to RMB71,367 million, representing a decrease of 2.46% as compared with the end of last year, which was mainly because the RMB2.6 billion financial bonds (bond code: 1320024) issued by the Bank in 2013 was matured and settled on May 20, 2018.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4.3 Shareholders' Equity

As at June 30, 2018, the Bank's total shareholders' equity increased by RMB1,452 million to RMB34,892 million, representing an increase of 4.34% as compared with the end of last year. As at June 30, 2018, total equity attributable to shareholders of the Bank increased by RMB1,496 million to RMB33,703 million, representing an increase of 4.64% as compared with the end of last year. The increase in shareholders' equity was mainly due to the continuous increase in the Bank's profits.

|   | As at June 30, 2018 |                | As at December 31, 2017 |                |
|---|---------------------|----------------|-------------------------|----------------|
|   | Amount              | % of total (%) | Amount                  | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                         |                |
| Share capital   | 5,322               | 15.24          | 5,322                   | 15.91          |
| Capital reserve   | 3,055               | 8.76           | 3,055                   | 9.14           |
| Surplus reserve   | 2,055               | 5.89           | 2,055                   | 6.15           |
| General reserve   | 5,520               | 15.82          | 5,520                   | 16.51          |
| Investment revaluation reserve                                      | (15)                | (0.04)         | (23)                    | (0.07)         |
| Remeasurement of net defined benefit liability                      | (40)                | (0.11)         | (52)                    | (0.16)         |
| Retained earnings   | 9,980               | 28.60          | 8,504                   | 25.43          |
| Other equity instruments  | 7,826               | 22.43          | 7,826                   | 23.40          |
| <b>Total equity attributable to shareholders of the Bank</b>        | <b>33,703</b>       | <b>96.59</b>   | 32,207                  | 96.31          |
| Non-controlling interests   | 1,189               | 3.41           | 1,233                   | 3.69           |
| <b>Total equity</b>   | <b>34,892</b>       | <b>100.00</b>  | 33,440                  | 100.00         |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 5. OFF-BALANCE SHEET COMMITMENTS

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

|                                | <b>As at<br/>June 30,<br/>2018<br/>(Renminbi millions)</b> | As at<br>December 31,<br>2017<br>(Renminbi millions) |
|--------------------------------|--|--|
| Credit commitments:            |  |  |
| Promissory notes               | <b>58,992</b>  | 57,539   |
| Letters of credit issued       | <b>7,335</b>   | 5,264  |
| Letters of guarantee           | <b>4,663</b>   | 3,987  |
| Unused credit card commitments | <b>1,376</b>   | 1,276  |
| <b>Total</b>                   | <b>72,366</b>  | 68,066   |

In addition, as at June 30, 2018, there was no material litigation in which either the Bank or subsidiaries of the Bank is a defendant. As at the date of this report, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments are disclosed in the note headed "Commitments and contingent liabilities" in the financial report of this interim report.

### 6. ANALYSIS ON LOAN QUALITY

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

As at June 30, 2018, the balance of the NPLs of the Bank amounted to RMB2,615 million. The NPL ratio was 1.88%, up by 38 bps as compared with the end of last year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6.1 Distribution of Loans by Five-Category Loan Classification

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

|  | As at June 30, 2018   |                | As at December 31, 2017 |                |
|--|---|----------------|-------------------------|----------------|
|  | Amount  | % of total (%) | Amount                  | % of total (%) |
|  | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                |                         |                |
| Normal                                       | 132,802   | 95.41          | 122,264                 | 95.18          |
| Special mention                              | 3,773   | 2.71           | 4,266                   | 3.32           |
| Substandard                                  | 2,076   | 1.49           | 1,361                   | 1.06           |
| Doubtful                                     | 536   | 0.39           | 562                     | 0.44           |
| Loss   | 3   | –              | 3                       | –              |
| <b>Total loans and advances to customers</b> | <b>139,190</b>  | <b>100.00</b>  | <b>128,456</b>          | <b>100.00</b>  |
| <b>NPLs and NPL ratio<sup>(1)</sup></b>      | <b>2,615</b>  | <b>1.88</b>    | <b>1,926</b>            | <b>1.50</b>    |

Note:

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

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

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6.2 Distribution of Loans and NPLs by Product Type

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

|   | As at June 30, 2018 |                |              |               | As at December 31, 2017 |                |              |               |
|---|---------------------|----------------|--------------|---------------|-------------------------|----------------|--------------|---------------|
|   | Loan amount         | % of total (%) | NPL Amount   | NPL ratio (%) | Loan amount             | % of total (%) | NPL Amount   | NPL ratio (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |              |               |                         |                |              |               |
| <b>Corporate loans</b>  |                     |                |              |               |                         |                |              |               |
| Short-term loans  | 51,025              | 36.66          | 1,576        | 3.09          | 55,640                  | 43.31          | 1,315        | 2.36          |
| Medium and long-term loans  | 45,939              | 33.00          | 435          | 0.95          | 36,609                  | 28.50          | 303          | 0.83          |
| Discounted bills  | 3,482               | 2.50           | –            | –             | 2,094                   | 1.63           | –            | –             |
| Sub-total   | 100,446             | 72.16          | 2,011        | 2.00          | 94,343                  | 73.44          | 1,618        | 1.72          |
| <b>Personal loans</b>   |                     |                |              |               |                         |                |              |               |
| Personal business loans   | 14,868              | 10.69          | 478          | 3.21          | 12,852                  | 10.01          | 225          | 1.75          |
| Personal residential mortgage loans                                 | 12,850              | 9.23           | 5            | 0.04          | 10,241                  | 7.97           | 3            | 0.03          |
| Personal consumption loans  | 8,382               | 6.02           | 109          | 1.30          | 8,828                   | 6.87           | 73           | 0.83          |
| Auto loans  | 1,237               | 0.89           | 2            | 0.16          | 1,065                   | 0.83           | 2            | 0.19          |
| Credit card balances  | 1,407               | 1.01           | 10           | 0.71          | 1,127                   | 0.88           | 5            | 0.44          |
| Sub-total   | 38,744              | 27.84          | 604          | 1.56          | 34,113                  | 26.56          | 308          | 0.90          |
| <b>Total</b>  | <b>139,190</b>      | <b>100.00</b>  | <b>2,615</b> | <b>1.88</b>   | <b>128,456</b>          | <b>100.00</b>  | <b>1,926</b> | <b>1.50</b>   |

In the first half of 2018, the Bank actively responded to the national policies by strengthening the adjustment of our loans structure and continuing to develop our microcredit business (loans to small enterprise legal persons and personal loans). At the end of the Reporting Period, the NPL ratios of corporate loans and personal loans rose to 2.00% and 1.56% respectively, due to (i) the impact of the slowdown of the economic growth, and (ii) the gradual reclassification of the loans more than 90 days overdue into the category of NPLs in accordance with the adjustment made by the Bank to the classification of risk in compliance with regulatory policies. However, the loan risks of the Bank are controllable in general.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6.3 Distribution of Loans and NPLs by Industry

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

|   | As at June 30, 2018 |                |              |               | As at December 31, 2017 |                |              |               |
|---|---------------------|----------------|--------------|---------------|-------------------------|----------------|--------------|---------------|
|   | Loan amount         | % of total (%) | NPL Amount   | NPL ratio (%) | Loan amount             | % of total (%) | NPL Amount   | NPL ratio (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |              |               |                         |                |              |               |
| Wholesale and retail  | 30,323              | 21.79          | 654          | 2.16          | 32,436                  | 25.25          | 521          | 1.61          |
| Manufacturing   | 14,714              | 10.57          | 993          | 6.75          | 13,679                  | 10.65          | 869          | 6.35          |
| Real estate   | 13,388              | 9.62           | 2            | 0.01          | 9,991                   | 7.78           | –            | –             |
| Construction  | 12,031              | 8.64           | 73           | 0.61          | 11,951                  | 9.30           | 38           | 0.32          |
| Leasing and commercial services                                     | 7,396               | 5.31           | 31           | 0.42          | 7,642                   | 5.95           | 16           | 0.21          |
| Water, environment and public facilities management                 | 6,743               | 4.84           | 2            | 0.03          | 3,676                   | 2.86           | –            | –             |
| Transportation, storage and postal services                         | 2,887               | 2.07           | 31           | 1.07          | 2,386                   | 1.86           | 19           | 0.80          |
| Agriculture, forestry, animal husbandry and fishery                 | 2,166               | 1.56           | 115          | 5.31          | 2,292                   | 1.78           | 71           | 3.10          |
| Production and supply of electric and heating power, gas and water  | 1,766               | 1.27           | –            | –             | 1,765                   | 1.37           | –            | –             |
| Accommodation and catering  | 1,099               | 0.79           | 51           | 4.64          | 1,075                   | 0.84           | 51           | 4.74          |
| Public administration, social security and social organisations     | –                   | –              | –            | –             | 328                     | 0.26           | –            | –             |
| Culture, sports and entertainment                                   | 277                 | 0.20           | 2            | 0.72          | 382                     | 0.30           | –            | –             |
| Mining  | 134                 | 0.10           | 4            | 2.99          | 223                     | 0.17           | 4            | 1.79          |
| Others  | 4,040               | 2.90           | 53           | 1.31          | 4,423                   | 3.44           | 29           | 0.66          |
| <b>Total corporate loans</b>  | <b>96,964</b>       | <b>69.66</b>   | <b>2,011</b> | <b>2.07</b>   | <b>92,249</b>           | <b>71.81</b>   | <b>1,618</b> | <b>1.75</b>   |
| <b>Total personal loans</b>   | <b>38,744</b>       | <b>27.84</b>   | <b>604</b>   | <b>1.56</b>   | <b>34,113</b>           | <b>26.56</b>   | <b>308</b>   | <b>0.90</b>   |
| <b>Discounted bills</b>   | <b>3,482</b>        | <b>2.50</b>    | <b>–</b>     | <b>–</b>      | <b>2,094</b>            | <b>1.63</b>    | <b>–</b>     | <b>–</b>      |
| <b>Total</b>  | <b>139,190</b>      | <b>100.00</b>  | <b>2,615</b> | <b>1.88</b>   | <b>128,456</b>          | <b>100.00</b>  | <b>1,926</b> | <b>1.50</b>   |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at June 30, 2018, the non-performing corporate loans of the Bank were mainly concentrated in the manufacturing industry, the agriculture, forestry, animal husbandry and fishery industry, the accommodation and catering industry, the mining industry, and the wholesale and retail industry, with NPL ratios of 6.75%, 5.31%, 4.64%, 2.99% and 2.16%, respectively.

### 6.4 Distribution of Loans and NPLs by Collateral

The following table sets forth, as at the dates indicated, the distribution of the Bank's loans and NPLs by collateral.

|   | As at June 30, 2018 |                |              |               | As at December 31, 2017 |                |              |               |
|---|---------------------|----------------|--------------|---------------|-------------------------|----------------|--------------|---------------|
|   | Loan amount         | % of total (%) | NPL Amount   | NPL ratio (%) | Loan amount             | % of total (%) | NPL Amount   | NPL ratio (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |              |               |                         |                |              |               |
| Unsecured loans   | 19,501              | 14.01          | 13           | 0.07          | 15,454                  | 12.03          | 10           | 0.06          |
| Guaranteed loans  | 43,254              | 31.08          | 2,063        | 4.77          | 39,140                  | 30.47          | 1,511        | 3.86          |
| Loans secured by mortgages  | 47,246              | 33.94          | 510          | 1.08          | 43,574                  | 33.92          | 381          | 0.87          |
| Loans secured by pledges  | 29,189              | 20.97          | 29           | 0.10          | 30,288                  | 23.58          | 24           | 0.08          |
| <b>Total</b>  | <b>139,190</b>      | <b>100.00</b>  | <b>2,615</b> | <b>1.88</b>   | <b>128,456</b>          | <b>100.00</b>  | <b>1,926</b> | <b>1.50</b>   |



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6.5 Borrowers Concentration

As at June 30, 2018, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower.

The following table sets forth, as at June 30, 2018, the Bank's loans (in terms of loan balance) to the ten largest single borrowers (excluding group borrowers), all of which were classified as normal.

| Borrower  | Industry   | As at June 30, 2018 |                         |                         |
|---|--|---------------------|-------------------------|-------------------------|
|   |  | Balance             | % of total loans<br>(%) | % of net capital<br>(%) |
| <i>(Expressed in millions of Renminbi,<br/>unless otherwise stated)</i> |  |                     |                         |                         |
| Borrower A  | Water, environment and public<br>facility management | 1,500               | 1.08                    | 3.51                    |
| Borrower B  | Construction   | 1,395               | 1.00                    | 3.26                    |
| Borrower C  | Financial services                                   | 1,000               | 0.72                    | 2.34                    |
| Borrower D  | Water, environment and public<br>facility management | 990                 | 0.71                    | 2.31                    |
| Borrower E  | Real estate  | 900                 | 0.65                    | 2.10                    |
| Borrower F  | Transportation, storage<br>and postal services       | 883                 | 0.63                    | 2.06                    |
| Borrower G  | Leasing and<br>commercial services                   | 881                 | 0.63                    | 2.06                    |
| Borrower H  | Manufacturing  | 863                 | 0.62                    | 2.02                    |
| Borrower I  | Real estate  | 855                 | 0.61                    | 2.00                    |
| Borrower J  | Leasing and<br>commercial services                   | 762                 | 0.55                    | 1.78                    |
| <b>Total</b>  |  | <b>10,029</b>       | <b>7.20</b>             | <b>23.44</b>            |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6.6 Overdue Loans

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

|                                     | As at June 30, 2018   |                | As at December 31, 2017 |                |
|-------------------------------------|---|----------------|-------------------------|----------------|
|                                     | Amount  | % of total (%) | Amount                  | % of total (%) |
|                                     | <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                |                         |                |
| Current loans                       | 132,674   | 95.32          | 121,579                 | 94.65          |
| Loans past due for <sup>(1)</sup> : |   |                |                         |                |
| 1 to 90 days                        | 2,642   | 1.90           | 3,582                   | 2.79           |
| 91 to 360 days                      | 2,140   | 1.54           | 2,176                   | 1.69           |
| 361 days or more                    | 1,734   | 1.24           | 1,119                   | 0.87           |
| Subtotal                            | 6,516   | 4.68           | 6,877                   | 5.35           |
| <b>Total loans</b>                  | <b>139,190</b>  | <b>100.00</b>  | 128,456                 | 100.00         |

Note:

(1) Representing the principal amount of the loans on which principal or interest is overdue.

As at June 30, 2018, the amount of overdue loans totaled RMB6,516 million, decreasing by RMB361 million as compared with the end of last year. Overdue loans accounted for 4.68% of the total loans, decreasing by 67 bps as compared with the end of last year. The decrease in overdue loans was mainly a result of increase in amount written off and accelerated mitigation of risks in the first half of 2018.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 7. BUSINESS SEGMENT REPORT

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

|   | As at June 30, 2018 |                | As at June 30, 2017 |                |
|---|---------------------|----------------|---------------------|----------------|
|   | Amount              | % of total (%) | Amount              | % of total (%) |
| <i>(Expressed in millions of Renminbi, unless otherwise stated)</i> |                     |                |                     |                |
| Corporate banking business  | 2,562               | 49.88          | 2,022               | 41.61          |
| Retail banking business   | 1,072               | 20.87          | 952                 | 19.59          |
| Treasury business   | 1,492               | 29.04          | 1,865               | 38.37          |
| Others <sup>(1)</sup>   | 11                  | 0.21           | 21                  | 0.43           |
| <b>Total operating income</b>                                       | <b>5,137</b>        | <b>100.00</b>  | <b>4,860</b>        | <b>100.00</b>  |

Note:

- (1) The segment consists primarily of equity investment and the corresponding income, and any other business that is not directly attributable to any specific segment.

### 8. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimise its business structure and strengthen its capital management. As at June 30, 2018, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 12.88%, 10.19% and 7.81%, respectively, representing a decrease by 65 bps, 30 bps and 12 bps as compared with the end of last year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBIRC for the transition period. The changes in capital adequacy ratio were mainly due to the increase in risk-weighted assets resulting from the increase in size of assets of the Bank.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In accordance with the the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBIRC, the capital adequacy ratio of the Bank was as follows:

|  | <b>As at June 30,<br/>2018</b>  | As at December<br>31, 2017 |
|--|---|----------------------------|
|  | <i>(Expressed in millions of Renminbi,<br/>unless otherwise stated)</i> |                            |
| Core tier-one capital                                      |   |                            |
| Share capital  | <b>5,322</b>  | 5,322                      |
| Valid portion of capital reserve                           | <b>3,000</b>  | 2,980                      |
| Surplus reserve  | <b>2,055</b>  | 2,055                      |
| General reserve  | <b>5,520</b>  | 5,520                      |
| Retained earnings  | <b>9,980</b>  | 8,504                      |
| Valid portion of minority interests                        | <b>578</b>  | 453                        |
| <b>Total core tier-one capital</b>                         | <b>26,455</b>   | 24,834                     |
| Core tier-one capital deductions                           | <b>(513)</b>  | (456)                      |
| <b>Net core tier-one capital</b>                           | <b>25,942</b>   | 24,378                     |
| <b>Additional tier-one capital</b>                         |   |                            |
| Additional tier-one capital and related premium            | <b>7,826</b>  | 7,826                      |
| Valid portion of minority interests                        | <b>75</b>   | 60                         |
| <b>Net tier-one capital</b>                                | <b>33,843</b>   | 32,264                     |
| <b>Tier-two capital</b>                                    |   |                            |
| Qualifying portions of tier-two capital instruments issued | <b>7,000</b>  | 7,000                      |
| Surplus provision for loan impairment                      | <b>1,787</b>  | 2,231                      |
| <b>Adjustments for tier-two capital</b>                    | <b>153</b>  | 121                        |
| <b>Net tier-two capital</b>                                | <b>8,940</b>  | 9,352                      |
| <b>Net capital base</b>                                    | <b>42,783</b>   | 41,616                     |
| <b>Total risk-weighted assets</b>                          | <b>332,080</b>  | 307,475                    |
| <b>Core tier-one capital adequacy ratio</b>                | <b>7.81</b>   | 7.93                       |
| <b>Tier-one capital adequacy ratio</b>                     | <b>10.19</b>  | 10.49                      |
| <b>Capital adequacy ratio</b>                              | <b>12.88</b>  | 13.53                      |

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9. BUSINESS OPERATION

#### 9.1 Corporate Banking Business

##### 9.1.1 Corporate deposits and loans business

###### *Corporate deposits*

In the first half of 2018, amidst the continuing deterioration of the macro-economic environment and the pressure from the stricter financial regulation policies, the Bank advanced its transaction banking business and its investment banking business as well as the in-depth development of transformation and upgrading of its businesses. It also leveraged on its portfolio of corporate liability products and innovation capability to gradually improve the comprehensive efficiency of corporate deposits. At the same time, it continued to consolidate strategic customer resources and enhanced the overall contribution of corporate customers. As a result, the Bank achieved a continuous growth in corporate deposits.

In the first half of 2018, the Bank comprehensively promoted the marketing for institutional customers, actively participated in provincial and municipal tender projects through management promotion and independent marketing, and successfully won the time deposits for special accounts at the provincial level; accelerated the marketing progress of local branches in participating in local farmers' security deposits, the housing maintenance fund bidding, highway toll collection across the province and other projects and further strengthened the management of funds for financial and institutional customers.

As of June 30, 2018, the Bank's balance of corporate deposits amounted to RMB174,728 million, accounting for 66.41% of the total balance of all deposits, representing an increase of RMB6,363 million or 3.78% as compared with the end of last year.

###### *Corporate loans*

The Bank enhanced its efforts for credit risk management by means of strengthening research on credit extension policies, optimizing the approval system for credit extension, enhancing the establishment of independent approval person team, setting up the risk limit management and control system and improving the management of the Group's credit extension business, with innovative development and preventing risks as the main focus for corporate loans. Meanwhile, in order to facilitate the adjustment of its credit structure, the Bank increased its withdrawal from over-capacity industries and actively promoted the establishment of the green credit system. As of June 30, 2018, the Bank's balance of corporate loans amounted to RMB100,446 million, representing an increase of RMB6,103 million or 6.47% as compared with the beginning of the year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.1.2 Customer management and team building

#### *Customer management*

In the first half of 2018, the Bank continued to optimize its customer relationship management (“CRM”) work. It focused on work priorities with sales management mechanisms and sales inspection mechanisms, enhanced the customer marketing management of the entire bank and reformed and optimized the CRM system, achieving online and intelligent analysis of the sales process management, and managed the dynamic situation of the customer marketing of the entire bank, which further strengthened our customer base, and effectively enhanced the management efficiency of our relationships with customers and customer managers. Taking advantage of our extensive network layout in Henan Province and advanced CRM methods, the Bank’s number of corporate customers continued to increase healthily.

#### *Team building for sales teams*

By introducing a hierarchical management system for corporate customer managers, the Bank promoted the evaluation of customer managers and continuously improved the performance evaluation and target management methodology for customer managers. By means of strict evaluation of, inter alia, the performance, service quality and moral character of customer managers, we initiated dynamic management over customer managers to continuously optimize the customer manager team structure. Moreover, the Bank established and improved the comprehensive training system for customer managers and built the capacity of customer managers to improve the service quality and marketing skills of customer managers. The access and exit mechanism was rigorously enforced and a reasonable remuneration system was set up to stimulate the positive work attitude of customer managers, thereby building a professional corporate customer manager team that is highly energetic and service oriented with strong professional ethics. By consistently improving the management system of corporate customer managers, the Bank facilitated the continuous steady development of our businesses.

## 9.2 Financial Services for Commerce

In the first half of 2018, the Bank continued to adhere to the unique positioning of “commerce and logistics banking”, relied on location advantages, focused on commerce and logistics, consolidated resources of industry, finance and government, concentrated on the construction of five clouds, including “cloud trading”, “cloud financing”, “cloud service”, “cloud logistics” and “cloud business”, and continued to strengthen product and service innovation.

During the Reporting Period, the Bank committed itself to creating a “cloud trading” online platform to meet the requirements of transaction settlement and treasury management of customers from different industries with different scales, and to drive low-cost liabilities. The Bank continued to upgrade and improve the “cloud financing” online platform, established the “Internet + industry chain financing” platform, and built leading supply chain financing services. The Bank launched the on-line “cloud service” platform – the “Bank of Zhengzhou Bank for Commerce and Finance (鄭州銀行商貿金融)”, the public WeChat account of the Bank of Zhengzhou for corporate businesses. Through three functional sections, including micro-account, micro-finance, micro-information, the Bank provides customers with online, convenient and all-round value-added services, which improved customer loyalty and achieved our strategic goal of being a comprehensive financial service provider. Based on the logistics industry chain scenarios as well as the actual needs and problems of logistics enterprises, the Bank cooperated with financial technology enterprises to build a professional treasury management platform for logistics enterprises to comprehensively meet the requirements of logistics enterprises in collection, payment, financial management, and liquidity management. The Bank deeply engaged in the logistics industry chain and, based on the “one-stop” comprehensive treasury management plan, achieved in-depth business cooperation with various logistics service participants. It completed “cloud business” positioning and built a win-win financial ecosystem platform based on the needs of commerce and logistics alliance members.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.3 Personal Banking Business

#### 9.3.1 Personal deposits

As a local financial institution in Zhengzhou, the Bank adhered to its unique positioning as a “boutique bank for residents”. Focusing on the main business theme of serving personal customers, the Bank strengthened innovation in business products, improved service systems, enhanced customer value, built quality teams and adhered to the combination of cross-marketing, consumer finance and wealth management. It continuously upgraded the quality of our financial services closely related to local residents. The Bank also strived to enhance the quality of business development and the influence of our quality to constantly motivate the development of our personal deposit business. Meanwhile, the Bank also actively responded to the interest rate marketization, constantly optimized the pricing strategy of deposit interest rate on the basis of market and customer demand, and improved the ability of deposit self-pricing and risk management. As at June 30, 2018, the Bank’s total personal deposits amounted to RMB69,390 million, representing an increase of RMB1,827 million or 2.70% from the end of last year. The Bank’s personal deposit business was ranked the top among its regional peers in terms of total balance, increment and market share.

#### 9.3.2 Personal loans

During the Reporting Period, the Bank vigorously developed personal loans. Firstly, the Bank revised the automobile finance system. According to the requirements of the “Measures for the Management of Automobile Loans (汽車貸款管理辦法)” of the PBoC and the CBIRC, the “Rules on Personal Automobiles and Construction Machinery Equipment (個人汽車及工程機械設備操作規程)” and the “Rules on Loan for Personal Automobile Rental Operation (個人租車貸操作規程)” were revised. Secondly, the Bank adjusted and optimized the property financial policy. The Bank specified the scope of regional access, restricted access to property projects, selected and prioritized support for inelastic demand and improved ordinary commodity housing, and banned entry into commercial property projects and villa projects. It specified the list of second-hand housing cooperation agencies and identified the cooperation model. Thirdly, the Bank increased promotion and distribution to ensure the smooth release of a large number of housing loans. For mortgage loans, different promotion plans were formulated for different layers such as “urban sub-branches, branches”, “commercial and residential housing” and “property cooperation and strategic cooperation”. The Bank conducted effective business reserve and release tracking. Fourthly, the construction of the credit factory project progressed smoothly, and the products in both phases were launched. Products with a large volume and high standardization of the Bank (such as automobile loans, mortgages, housing loans, priority loans, consumer loans, etc.) were included in the credit factory management operations. By transforming the credit system, the business process was divided, and data was connected with that of the PBoC, industry and commerce authority, justice authority, and Tongdun Anti-fraud. By combining with mobile PAD operations, it achieved operation between big data risk control and standardization, process and batch, which prevented the operation risk of the customer managers, improved the overall operational efficiency, and enhanced the customer’s experience with the product. As at the end of June 2018, the balance of the Bank’s personal loans amounted to RMB38,744 million, representing an increase of RMB4,631 million or 13.58% from the beginning of the year.

#### 9.3.3 Bank cards

In addition to the basic version of debit cards named “Shangding Card (商鼎卡)”, the Bank also introduced special themed cards, including “Zhengbian Tong Card (鄭汴通卡)” and the “Henan Provincial Labour Union Membership Card” (Kaifeng Municipal Trade Union, Xinxiang Municipal Trade Union and Luoyang Municipal Trade Union) in the first half of 2018 with a steady growth in the number of new cards issued. As at June 30, 2018, the Bank had issued a total of 4,869,700 debit cards, with 314,000 new cards issued as compared with the end of last year.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank launched its first Shangding credit card in October 2014, and launched the Shangding series joint name credit card named “Yuche Card (豫車卡)” in August 2016. In the first half of 2018, it newly introduced the joint name credit card named “Family of Shangding Youth (商鼎青年之家)” and the themed card named “Shangding Star (商鼎星卡)”. As at June 30, 2018, a total of 177,444 Shangding credit cards (including 13,897 Yuche Cards, 7,457 Family of Shangding Youth Cards and Shangding Star Cards) have been issued with aggregate transaction amount and aggregate operation revenue amounting to RMB24,632 million (the first half of 2018: RMB5,729 million) and RMB155 million (the first half of 2018: RMB41 million), respectively.

### 9.4 Financial Services for Small and Micro Enterprises

The Bank of Zhengzhou persistently followed the development strategy of “Being the Bank for Small and Micro Enterprises” in the first half of 2018. With a knowledge on the “financing difficulties and high financing cost” for small and micro enterprises, the Bank granted more credit to them. It made more efforts in strategic transformation, product innovation and process optimization, continuously deepened the transformation of small and micro businesses and provided small and micro enterprises with “different small and micro financial services”, providing them with tangible inclusive financial services.

During the Reporting Period, the Bank made a significant breakthrough in financial business for small and micro enterprises. Firstly, the Group innovated the asset business model, developed strategic alliances, obtained customers through platforms and attracted online assets business in batches. The Bank introduced a number of innovative financial products on platforms for online operation. As of the end of June 2018, Baidu Umoney (百度有錢花), Ant Cash Now (螞蟻借唄) and 58.com (58同城) have been launched online and jinrong.360jie.cn (360金融), weidai.com (微貸網) and the credit grant for dashuf-inc.com (大數金融) have been approved. All platform projects in the first half of the year released RMB5 billion in total with an average of RMB17,000 per customer. Secondly, the Bank actively explored the transformation of small and micro new business models. Under the guidance of McKinsey experts, the grades of the original assets were reorganized, the list rules for small and micro business grades as well as the grades of existing customer renewal policy were optimized, and efforts were made to “stop the bleeding” of existing business through “procedures, measures, and mechanisms”. The Bank optimized the existing graded customer refinancing assessment measures, opened up the integrated management channel of the headquarters, branches and sub-branches. The maintenance of existing assets has achieved preliminary results. As of the end of June 2018, the Bank managed RMB9.7 billion of existing business, including RMB4 billion in the green list, RMB3.4 billion in the yellow list and RMB2.3 billion in the red list, representing a decrease of RMB1.5 billion compared with the end of the first quarter of RMB11.2 billion, of which there was a decline of RMB1 billion in the red list and yellow list. The assets in the green list were well maintained and the overdue rates of each graded list were effectively controlled. Thirdly, the target groups of new business models were identified. Six major industry customer groups were identified: large retail, wholesale & logistics, food & agriculture, building materials & construction, commercial services and emerging industries. For the specific target group and specific business model, the basic plans of three new business model pilot products including “Personal Small Credit Loan for Wanbang Market (萬邦市場個人小額信用貸)”, “Commerce Lease Loan” and “Government Purchasing Loan” were determined. Fourthly, the Bank carried out interaction between savings and loans to achieve a quick win for its existing customers. For the existing quality customers, the Bank took the POS settlement services as the starting point to raise the proportion of settlement, and rationally increased the flow of its receipts. 2,690 target customers in the “green list” were selected as the target customer groups, and the Special Marketing Activities Plan for Saving and Loan Interaction-Settlement was formulated, which “promotes experience through activity plans”. In the second quarter, 200 target customers were successfully turned into customers and 175 customers have already joined. The settlement amount was nearly RMB50 million, driving deposits of nearly RMB5 million. Fifthly, the Bank actively carried out the prevention and control of small and micro loans. The retail credit risk model system optimization and improvement project was initiated, and the credit risk model system was optimized and upgraded according to the guidance of McKinsey risk project planning. The Bank established a channel between the Tongdun Anti-fraud data and the credit system to improve the ability to prevent the fraud risks of micro credit business.



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.5 Treasury Business

#### 9.5.1 Money market transactions

During the Reporting Period, the central bank shifted its monetary policy and began to implement a combination of “easy monetary + stringent credit + strict supervision”. Monetary policy has changed from “reasonable stability” to “reasonable abundance”. According to the capital situation of the currency market and cost fluctuations in the first half of 2018, the Bank aggressively grasped market opportunities to improve profitability while ensuring liquidity. As at June 30, 2018, the balance of deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements amounted to RMB18,761 million, representing 4.23% of the total assets; and the balance of deposits from banks and other financial institutions, placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB65,548 million, accounting for 16.04% of the Bank’s total liabilities.

#### 9.5.2 Investment in securities and other financial assets

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

As at June 30, 2018, the total investment bonds, investment products under trust schemes, investment products managed by securities companies and other securities financial assets of the Bank amounted to RMB224,477 million, representing an increase of RMB1,171 million or 0.52% as compared with the end of the previous year. Specifically, the balance of bond investments amounted to RMB66,409 million, representing a year-on-year increase of 3.41%; the total balance of investment products under trust schemes and investment products managed by securities companies amounted to RMB136,169 million, representing a year-on-year increase of 2.91%.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.5.3 *Wealth management business*

As at June 30, 2018, the Bank had 276 ongoing wealth management products with a total size of RMB45,520 million, representing a decrease of RMB3,879 million as compared with the beginning of the year. In the first half of 2018, the daily average size of ongoing wealth management products amounted to RMB50,015 million. During the Reporting Period, the Bank smoothly operated seven series of closed wealth management products, namely, “Dingcheng (鼎誠)”, “Jujin (聚金)”, “Changxiang (暢享)”, “Juxin (聚鑫)”, “Jucai (聚財)”, “Tonghui (同惠)” and “Juying (聚贏)”, and three series of open-ended wealth management products, namely, “Weekly Profit (週週盈)”, “Monthly Profit (月月盈)” and “Quarterly Profit (季季盈)”. The Bank issued a total of 249 wealth management products with accumulated proceeds of RMB43,422 million, representing an increase of 16.36% as compared with the corresponding period of last year. On average, the Bank issued 41 wealth management products with accumulated proceeds of RMB7,237 million per month.

## 9.6 Distribution Channels

### 9.6.1 *Physical outlets*

During the Reporting Period, the Bank has established its head office in Zhengzhou and twelve branches in Nanyang, Xinxiang, Luoyang, Anyang, Xuchang, Shangqiu, Luohe, Xinyang, Puyang, Pingdingshan, Zhumadian and Kaifeng were granted approvals to commence operation. As at June 30, 2018, a total of 153 sub-branches were established within Henan Province. The Bank operates mainly in Henan Province of the PRC.

As at June 30, 2018, the Bank had a total of 155 intra-branch self-service facilities, including 84 banks in Zhengzhou, 21 banks in the neighbouring counties of Zhengzhou, 50 branches and county outlets. The Bank also had a total of 150 extra-branch self-service facilities in Henan Province, including 82 in Zhengzhou and 68 branches and outlets in the neighbouring counties of Zhengzhou. The Bank's network of self-service outlets provided 24-hour convenient services to its customers, which, together with the extra-branch self-service outlets, achieved excellent regional service coverage.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.6.2 *Electronic banking*

#### *Self-service banking*

The Bank's self-service banking infrastructure covers automatic teller machines, automatic cash withdrawal and deposit machines, smart counters, online banking terminals, easy payment terminals, "QuikTrans (快窗)", "Yintietong (銀鐵通)" and machines for filling in forms, with an aim to provide customers with a wide range of services ranging from cash withdrawal and deposit, account inquiry, bill payment, PIN change, fund transfer, train ticket purchase and self-service form filling with a higher efficiency. Adhering to our customer-oriented strategy, we have been developing and upgrading our self-service banking facilities with new functions. Currently, the Bank is actively transforming its self-service facilities with the focus on the development of non-cash self-service facilities with multiple functions. In particular, the best representative is the growing smart counter business, which has resulted in better customer flow management, reduced the burden at the frontline and has become a dispensable marketing and business channel. As at June 30, 2018, we had 1,463 self-service banking facilities, including 341 automatic teller machines, 402 automatic cash withdrawal and deposit machines, 282 smart counters, 250 online banking terminals, 151 easy payment terminals, 36 form filling machines and 1 "QuikTrans" teller. The total number of cash withdrawal and deposit transactions amounted to 4,181,200, representing a year-on-year decrease of 19.28%, while the cash withdrawal and deposit transaction amounts totalled RMB9.65 billion, representing a year-on-year decrease of 2.24%.

#### *Online banking*

In the first half of 2018, our individual online banking segment registered 167,100 new accounts, representing a year-on-year increase of 35.19%, and the number and amount of transactions reached 2,056,000 and RMB38,104 million, respectively. As at June 30, 2018, the total number of individual online banking accounts was 862,700 (excluding the number of closed accounts). In the first half of 2018, the total number of corporate online banking accounts was 25,700, representing an increase of 12.53% as compared with the first half of 2017. The number of online transactions and the transaction amount reached 873,400 and RMB305,839 million, respectively, representing increases of 33.7% and 43.13% as compared with the first half of 2017.

#### *Mobile banking*

The Bank's mobile banking service has been offered to the market since January 9, 2013. On November 11, 2015, our upgraded mobile banking service was introduced. Mobile banking service introduced in 2016 mainly includes the "Financial Street (金融街)" and "Living Circle (生活圈)" projects. The Financial Street project mainly refers to the finance related functions of the mobile banking service. According to the project planning of Financial Street, one by one, the mobile banking service has introduced various functions including fund purchase, Ritianli (日添利), certificates of deposit subscription, time deposit and current deposit conversion, contracted withholding, Yinxintong (銀信通) contracting, Huideli (惠得利) contracting, personal loan comprehensive inquiries (general inquiries and revolving loan inquiries), lending and repayment of revolving loans, etc. Mobile banking also provided services for application for the Bank's credit cards and interbank repayment. By adhering to the Bank's positioning as a "boutique bank for residents", the Living Circle is targeted to provide life services closely linked with financial products, such as hospital appointments, charitable donations, ticket bookings, school payments, etc. The powerful features and improving services of mobile banking has brought our customers a brand-new user experience.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the first half of 2018, our mobile banking segment registered 200,600 new accounts, representing a year-on-year increase of 48.48%, while the number and amount of transactions amounted to 1,770,000 and RMB30,458 million respectively, representing year-on-year increases of 46.28% and 73.05% respectively. As at June 30, 2018, the total number of mobile banking accounts had reached 940,800 (excluding the number of closed accounts) while the aggregate number and amount of transactions amounted to 7,442,200 and RMB106,234 million, respectively.

### *Online payment*

Our online payment platform was introduced to the market in July 2012. In the first half of 2018, 318,800 new users were registered, representing a year-on-year decrease of 78.06%, while the number and amount of transactions amounted to 20,251,900 and RMB8.33 billion respectively, representing year-on-year increases of 160.08% and 138.07%, respectively. As at June 30, 2018, the total number of users on our online payment platform reached 4,988,500 while the aggregate number and amount of transactions amounted to 53,953,600 and RMB22,696 million, respectively.

As at June 30, 2018, the Bank's online payment service has covered the mainstream payment methods such as Alipay, Tenpay, Baifubao, Online payment unit of JD.com and Yifubao (易付寶), which provided diversified payment methods for the Bank's cards as well as an enhanced payment experience for customers.

### *Telephone banking*

We offer telephone banking services to our customers 24 hours a day, seven days a week through the nation-wide customer service hotline +86-4000-967585. Our services include financial business consultation, transaction inquiries, loss reporting, bill payment, loan business consultation, investment and wealth management services, PIN services, credit card services, outbound calls and customer caring. The customer service centre continued to enhance user experience and actively expand the service scope based on the customers' needs. In the first half of 2018, our telephone banking service department handled a total of 1,570,500 cases.

### *WeChat Banking*

Since the launch of the Bank's WeChat Banking on October 25, 2013, the number of followers who have linked their bank cards to the Bank's WeChat Banking reached 578,700 as at June 30, 2018. WeChat Banking provides customers with extensive online functions, including individual account balance inquiry service, transaction details inquiry, free account alerts, credit card inquiry and online application, online application for personal loans and available products inquiry, branches inquiry and reservation, form pre-filling services and union card area. Every week at a set time we release information on our new businesses and new functions as well as promotion activities via our WeChat Banking, aiming to show the recent business dynamics of the Bank to our WeChat Banking customers.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### *Ding Rong Yi*

Relying on the “Internet plus”, the Bank’s internet financial service platform “Ding Rong Yi (鼎融易)” focuses on citizen services, trade and logistics, financial services to medium, small and micro-sized enterprises and other core areas. It provides online account opening, online financial management, convenient payment, non-tax payment, intelligent investment consulting services, services for small and micro merchants, mobile payment and other diversified service features. It covers internet financial services such as deposit, loan and fund transfer services, empowering merchants on open platforms and social networking services, government services and utilities for citizens. As at June 30, 2018, the total number of registered Ding Rong Yi accounts registers reached 434,500, with an aggregate number of transactions of 1,428,900 and total transaction amount of RMB60,121 million.

## **9.7 Operations of Subsidiaries**

### **9.7.1 Operations of subsidiaries**

#### *Henan Jiuding Financial Leasing Co., Ltd.*

As at the end of the Reporting Period, the Bank held a 51% equity interest in Jiuding Financial Leasing Company, a subsidiary of the Bank with a registered capital of RMB2 billion. Jiuding Financial Leasing Company was established in the PRC, and conducts its business activities in China. Its principal businesses include: (1) financial leasing business; (2) outward or inward transfer of financial leasing assets; (3) fixed income securities investment business; (4) acceptance of leasing deposits from lessees; (5) acceptance of fixed deposits with maturity of 3 months or above from non-bank Shareholders; (6) interbank borrowings; (7) borrowings from financial institutions; (8) offshore borrowings; (9) leasing asset sale and disposal business; (10) economic consultancy; and (11) other businesses approved by the CBIRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

Jiuding Financial Leasing Company has always upheld the business philosophy of “innovative, efficient, synergistic and stable operations”, and adhered to the strategic positioning of “intensively developing in Zhengzhou, consolidating its position in Henan, penetrating to other regions in the PRC, focusing on specialization and featured businesses”. As at June 30, 2018, the total assets of Jiuding Financial Leasing Company amounted to RMB14,769 million, balance of financial leasing amounted to RMB14,835 million and net profit amounted to RMB49 million, respectively.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### *Xinmi Zhengyin County Bank Co., Ltd.*

As at the end of the Reporting Period, the Bank held a 51.2% equity interest in Xinmi Zhengyin County Bank Co., Ltd. ("**Xinmi Zhengyin County Bank**"), a subsidiary of the Bank with a registered capital of RMB125 million. Xinmi Zhengyin County Bank was established in the PRC, and conducts its business activities in China. Its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) bank card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC. (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business)

Xinmi Zhengyin County Bank upholds the service aims of "serving Xinmi, the three rural sectors (三農) and small and micro businesses". As at June 30, 2018, it had accumulated total assets of RMB755 million, total loans of RMB499 million, total deposits of RMB592 million, an NPL ratio of 3.34% and net profit of RMB1,403,100. All of its major indicators were in compliance with the regulatory requirements.

### *Fugou Zhengyin County Bank Co., Ltd.*

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

Fugou Zhengyin County Bank has a short decision-making chain, flexible credit policy, and the capability to adapt its operation process to match the financial needs of the agricultural industry. As at June 30, 2018, Fugou Zhengyin County Bank had accumulated total assets of RMB509 million, total loans of RMB325 million, total deposits of RMB379 million and net profit of RMB397,400 and an NPL ratio of 0.1%. Its major indicators were in compliance with the regulatory requirements.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### *Xunxian Zhengyin County Bank Co., Ltd.*

As at the end of the Reporting Period, the Bank held a 51% equity interest in Xunxian Zhengyin County Bank Co., Ltd. ("**Xunxian Zhengyin County Bank**"), a subsidiary of the Bank with a registered capital of RMB50 million. Xunxian Zhengyin County Bank was established in the PRC, and conducts its business activities in China. Its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) acting as the issuing agent, cashing agent and the underwriter of government bonds; (6) interbank borrowings; (7) debit-card business; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC. For items subject to licence, no activities related thereto can be performed until obtaining such licences from relevant departments. (Items which require approvals shall be subject to the approval from relevant departments before the commencement of business)

Xunxian Zhengyin County Bank upholds the service aims of "joining hands with the public, serving the three rural sectors (三農), establishing a rural foothold and delivering benefit to rural areas and support to small business". As at June 30, 2018, it had accumulated total assets of RMB315 million, total deposits of RMB239 million and an NPL ratio of zero. All of its major indicators were in compliance with the regulatory requirements.

### *Queshan Zhengyin County Bank Co., Ltd.*

As at the end of the Reporting Period, the Bank held a 51% equity interest in Queshan Zhengyin County Bank Co., Ltd. ("**Queshan Zhengyin County Bank**"), a subsidiary of the Bank with a registered capital of RMB50 million. Queshan Zhengyin County Bank was established in the PRC, and conducts its business activities in China. Its principal businesses include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) bank card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting and payment agent and insurance agent; and (9) other businesses approved by the banking regulatory authorities in the PRC. (Items which require approvals shall be subject to the approval from relevant departments before the commencement of business)

Queshan Zhengyin County Bank adheres to the service aims of "serving Queshan, the three rural sectors (三農) and small and medium businesses". As at June 30, 2018, it had accumulated total assets of RMB404 million, total deposits of RMB354 million and an NPL ratio of zero. All of its major indicators were in compliance with the regulatory requirements.

### **9.7.2 Operations of investee companies**

As at the end of the Reporting Period, the Bank held 18.53%, 30.00% and 25.00% equity interests in Zhongmu Zhengyin County Bank Co., Ltd. ("**Zhongmu Zhengyin County Bank**"), Yanling Zhengyin County Bank Co., Ltd. and Xinzheng Zhengyin County Bank Co., Ltd., respectively. The total asset value of the three county banks reached RMB17,337 million, total deposits reached RMB15,466 million and total loans reached RMB10,868 million.

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



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 9.8 Risk Management

During the Reporting Period, the Bank further optimized its top-level design of risks governance, coordinated the establishment of relevant risk systems and mechanisms and emphasized the development of tools and professional talents in key risks to consistently foster the culture of being conscious of risks. As a result, our overall risk management capabilities have been continuously enhanced.

#### 9.8.1 Credit risk

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

We have built an all-round credit risk management infrastructure to cover our entire credit business processes, with established policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. We have established a bank-wide standardized authorisation and credit extension management system. We seek to improve our overall credit risk management capabilities by building up an internal customer rating system, updating our internal rating model, upgrading our credit risk management information system, and further tightening our credit review and monitoring. In the first half of 2018, in accordance with the development strategy of the Bank, we totally designed 36 quantitative indicators covering four categories, i.e. strategy, capital, revenue and particular risks, providing “quantitative indicators” in the Bank’s risk management.

#### 9.8.2 Market risk

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

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



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### *Market risk associated with banking book*

#### 1. Interest rate risk

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

#### 2. Exchange rate risk

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

### *Market risk associated with trading book*

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

### **9.8.3 Operational risk**

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

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

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **9.8.4 Liquidity risk**

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

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

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

### **9.8.5 Information Technology Risk**

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

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In the first half of 2018, the Bank deeply arranged drills on business continuity for the whole year and formulated the Plan for Drills on Business Continuity in 2018. The Bank is expected to carry out 53 drills this year on technology, business, security, outsourcing, information leakage and other aspects.

### **9.8.6 Reputational risk**

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

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

### **9.8.7 Implementation of the New Basel Capital Accord**

Since the beginning of 2013, the Bank has been committed to implementing the New Basel Capital Accord by selecting a development plan which matches the Bank’s business strategy, scale and complexity, and by actively formulating and implementing the Foundation Internal Rating Based Approach (IRB) for capital measurement in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial Implementation) and other regulatory policies. By enhancing the corporate governance structure, establishing a sound risk management system and improving the information technology system, the Bank aimed to meet all the regulatory requirements. The Bank has currently completed the establishment of an application scorecard system for the retail credit business, a collateral management system, a standard approach to operational risk and Governance, Risk & Compliance (GRC) system, an interest rate risk system for bank accounts, the consultation on liquidity risk management, the development of a credit rating model for bonds of the treasury business and the development of a scoring model for credit cards.

# CHAPTER IV CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## 1. CHANGES IN THE ORDINARY SHARES

|  | December 31, 2017    |                   | Changes during the Reporting Period<br>Number<br>(Shares) | June 30, 2018        |                   |
|--|----------------------|-------------------|---|----------------------|-------------------|
|  | Number<br>(Shares)   | Proportion<br>(%) |   | Number<br>(Shares)   | Proportion<br>(%) |
| Domestic Shares                              | 3,803,931,900        | 71.48             | 0   | <b>3,803,931,900</b> | <b>71.48</b>      |
| Overseas listed foreign Shares<br>(H Shares) | 1,518,000,000        | 28.52             | 0   | <b>1,518,000,000</b> | <b>28.52</b>      |
| <b>Total number of Ordinary Shares</b>       | <b>5,321,931,900</b> | <b>100.00</b>     | <b>0</b>  | <b>5,321,931,900</b> | <b>100.00</b>     |

## 2. INFORMATION ON SHAREHOLDERS

### 2.1 Total number of Shareholders during the Reporting Period

As at June 30, 2018, the Bank had a total of 3,620 holders of Domestic Shares.

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

### 2.2 Shareholdings of Shareholders

#### *Shareholdings of Top 10 Shareholders of Non-Overseas Listed Domestic Shares*

As at June 30, 2018, shareholdings of top 10 Shareholders of non-overseas listed Domestic Shares were as follows:

| Number | Name of Shareholder   | Nature of Shareholder                 | Number of Shares held at the end of the period<br>(Shares) | Percentage of total number of issued ordinary Shares<br>(%) | Class of Shares | Pledged or frozen<br>(Shares) |
|--------|---|---------------------------------------|--|---|-----------------|-------------------------------|
| 1      | Zhengzhou Finance Bureau<br>(鄭州市財政局)  | State-owned                           | 490,904,755  | 9.22  | Domestic Shares | 220,900,000                   |
| 2      | Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) | Domestic non-state-owned legal person | 262,000,000  | 4.92  | Domestic Shares | 262,000,000                   |
| 3      | Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)                    | Domestic non-state-owned legal person | 250,000,000  | 4.70  | Domestic Shares | 124,999,990                   |
| 4      | Zhongyuan Trust Co., Ltd. (中原信託有限公司)  | State-owned legal person              | 239,426,471  | 4.50  | Domestic Shares | –                             |
| 5      | Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)                                    | Domestic non-state-owned legal person | 226,000,000  | 4.25  | Domestic Shares | 135,600,000                   |
| 6      | Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)                              | State-owned legal person              | 215,678,764  | 4.05  | Domestic Shares | –                             |
| 7      | Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)  | Domestic non-state-owned legal person | 199,046,474  | 3.74  | Domestic Shares | 149,500,000                   |
| 8      | Bridge Trust Co., Ltd. (百瑞信託有限責任公司)   | State-owned legal person              | 114,697,149  | 2.16  | Domestic Shares | –                             |
| 9      | Henan Shengrun Holding Group Co., Ltd. (河南盛潤控股集團有限公司)                             | Domestic non-state-owned legal person | 100,000,000  | 1.88  | Domestic Shares | –                             |
| 10     | Henan Masahiro Properties Limited (河南正弘置業有限公司)                                    | Domestic non-state-owned legal person | 100,000,000  | 1.88  | Domestic Shares | 49,900,000                    |

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

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

Based on the knowledge of the Directors and chief executive of the Bank, as at June 30, 2018, the following persons, other than Directors, Supervisors and chief executive of the Bank, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

| Name of Substantial Shareholder  | Class of Shares | Long/Short positions | Capacity   | Number of Shares held directly or indirectly<br>(Shares) | Percentage of issued Shares of the relevant class<br>(%) | Percentage of total issued ordinary Shares<br>(%) |
|--|-----------------|----------------------|--|--|--|---|
| Zhengzhou Finance Bureau (鄭州市財政局)  | Domestic Shares | Long                 | Beneficial owner and interest of controlled corporation <sup>1</sup> | 656,163,737  | 17.25  | 12.33   |
| Yutai International (Henan) Real Estate Development Co., Ltd.<br>(豫泰國際(河南)房地產開發有限公司) | Domestic Shares | Long                 | Beneficial owner   | 262,000,000  | 6.89   | 4.92  |
| Henan Yutai Investment & Development Co., Ltd.<br>(河南省豫泰投資發展集團有限公司)                  | Domestic Shares | Long                 | Interest of controlled corporation <sup>2</sup>                      | 262,000,000  | 6.89   | 4.92  |
| ZHANG Xinya (張欣雅)  | Domestic Shares | Long                 | Interest of controlled corporation <sup>2</sup>                      | 262,000,000  | 6.89   | 4.92  |
| Henan Xingye Real Estate Development Co., Ltd.<br>(河南興業房地產開發有限公司)                    | Domestic Shares | Long                 | Beneficial owner   | 250,000,000  | 6.57   | 4.70  |
| Henan Zensun Enterprise Development Group Co., Ltd.<br>(河南正商企業發展集團有限責任公司)            | Domestic Shares | Long                 | Interest of controlled corporation <sup>3</sup>                      | 250,000,000  | 6.57   | 4.70  |
| Beijing Xiangcheng Investment Co., Ltd.<br>(北京祥誠投資有限公司)                              | Domestic Shares | Long                 | Interest of controlled corporation <sup>3</sup>                      | 250,000,000  | 6.57   | 4.70  |
| ZHANG Huiqi (張惠琪)  | Domestic Shares | Long                 | Interest of controlled corporation <sup>3</sup>                      | 250,000,000  | 6.57   | 4.70  |
| Zhongyuan Trust Co., Ltd.<br>(中原信託有限公司)  | Domestic Shares | Long                 | Beneficial owner   | 239,426,471  | 6.29   | 4.50  |
| Henan Zhongyuan Express Co., Ltd.<br>(河南中原高速公路股份有限公司)                                | Domestic Shares | Long                 | Interest of controlled corporation <sup>4</sup>                      | 239,426,471  | 6.29   | 4.50  |
| Henan Transport Investment Group Co., Ltd.<br>(河南交通投資集團有限公司)                         | Domestic Shares | Long                 | Interest of controlled corporation <sup>4</sup>                      | 239,426,471  | 6.29   | 4.50  |
| Henan Investment Group Co., Ltd.<br>(河南投資集團有限公司)                                     | Domestic Shares | Long                 | Beneficial owner and interest of controlled corporation <sup>5</sup> | 329,195,683  | 8.65   | 6.19  |
| Henan Chendong Industry Co., Ltd.<br>(河南晨東實業有限公司)                                    | Domestic Shares | Long                 | Beneficial owner   | 226,000,000  | 5.94   | 4.25  |
| DU Liling (杜麗玲)  | Domestic Shares | Long                 | Interest of controlled corporation <sup>6</sup>                      | 226,000,000  | 5.94   | 4.25  |

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

| Name of Substantial Shareholder   | Class of Shares | Long/Short positions | Capacity   | Number of Shares held directly or indirectly<br>(Shares) | Percentage of issued Shares of the relevant class<br>(%) | Percentage of total issued ordinary Shares<br>(%) |
|---|-----------------|----------------------|--|--|--|---|
| WANG Meilan (王梅蘭)   | Domestic Shares | Long                 | Interest of controlled corporation <sup>6</sup>  | 226,000,000  | 5.94   | 4.25  |
| Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)                    | Domestic Shares | Long                 | Beneficial owner <sup>7</sup>                    | 215,678,764  | 5.67   | 4.05  |
| Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)                              | Domestic Shares | Long                 | Beneficial owner <sup>8</sup>                    | 199,046,474  | 5.23   | 3.74  |
| China Goldjoy Securities Limited (中國金洋證券有限公司)                           | H Shares        | Long                 | Custodian  | 377,174,000  | 24.84  | 7.09  |
| Hong Kong Oriental Sage Limited (香港東智有限公司)                              | H Shares        | Long                 | Beneficial owner                                 | 223,000,000  | 14.69  | 4.19  |
| Oriental Sage Limited (東智有限公司)  | H Shares        | Long                 | Interest of controlled corporation <sup>9</sup>  | 223,000,000  | 14.69  | 4.19  |
| China Goldjoy Credit Limited  | H Shares        | Long                 | Person having a security interest <sup>10</sup>  | 113,000,000  | 7.44   | 2.12  |
| Stellar Result Limited  | H Shares        | Long                 | Person having a security interest                | 113,000,000  | 7.44   | 2.12  |
| Goldjoy Holding Limited   | H Shares        | Long                 | Interest of controlled corporation <sup>10</sup> | 113,000,000  | 7.44   | 2.12  |
| Great Sphere Developments Limited                                       | H Shares        | Long                 | Person having a security interest                | 185,802,000  | 12.24  | 3.49  |
| China Goldjoy Group Limited   | H Shares        | Long                 | Interest of controlled corporation <sup>10</sup> | 185,802,000  | 12.24  | 3.49  |
| Tinmark Development Limited   | H Shares        | Long                 | Person having a security interest                | 185,802,000  | 12.24  | 3.49  |
| YAO Jianhui (姚建輝)   | H Shares        | Long                 | Interest of controlled corporation <sup>11</sup> | 185,802,000  | 12.24  | 3.49  |
| Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司)               | H Shares        | Long                 | Person having a security interest                | 185,802,000  | 12.24  | 3.49  |
| WEI Lidong (尉立東)  | H Shares        | Long                 | Interest of controlled corporation <sup>12</sup> | 129,000,000  | 8.50   | 2.42  |
| Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司)  | H Shares        | Long                 | Person having a security interest                | 129,000,000  | 8.50   | 2.42  |
| Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) | H Shares        | Long                 | Beneficial owner                                 | 100,000,000  | 6.59   | 1.88  |
|   |                 |                      | Interest of controlled corporation <sup>12</sup> | 100,000,000  | 6.59   | 1.88  |
|   |                 |                      | Person having a security interest                | 100,000,000  | 6.59   | 1.88  |
|   |                 |                      | Interest of controlled corporation <sup>13</sup> | 100,000,000  | 6.59   | 1.88  |
|   |                 |                      | Beneficial owner                                 | 100,000,000  | 6.59   | 1.88  |
|   |                 |                      | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |

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

| Name of Substantial Shareholder  | Class of Shares | Long/Short positions | Capacity   | Number of Shares held directly or indirectly<br>(Shares) | Percentage of issued Shares of the relevant class<br>(%) | Percentage of total issued ordinary Shares<br>(%) |
|--|-----------------|----------------------|--|--|--|---|
| Zhengzhou Airport Zone Xinggang Investment and Development Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as Zhengzhou Xingzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司)) | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司)  | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司)  | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司)   | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司)  | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司))  | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Zhengzhou Ruichang Enterprise Management Consulting Limited (鄭州瑞昌企業管理諮詢有限公司)   | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| WAN Yongxing (萬永興)   | H Shares        | Long                 | Interest of controlled corporation <sup>14</sup> | 100,000,000  | 6.59   | 1.88  |
| Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司)  | H Shares        | Long                 | Beneficial owner <sup>15</sup>                   | 100,000,000  | 6.59   | 1.88  |
| CITIC Securities Company Limited   | H Shares        | Long                 | Interest of controlled corporation <sup>16</sup> | 791,955,065  | 52.17  | 14.88   |
|  | H Shares        | Short                | Interest of controlled corporation <sup>16</sup> | 739,211,896  | 48.70  | 13.89   |
| Goncius I Limited  | H Shares        | Long                 | Beneficial owner <sup>17</sup>                   | 115,501,859  | 7.61   | 2.17  |
|  | H Shares        | Short                | Beneficial owner <sup>17</sup>                   | 115,501,859  | 7.61   | 2.17  |
| BNP PARIBAS SA   | H Shares        | Long                 | Beneficial owner <sup>18</sup>                   | 108,282,992  | 7.13   | 2.03  |
| Huarong International Financial Holdings Limited   | H Shares        | Long                 | Beneficial owner <sup>19</sup>                   | 90,957,714   | 5.99   | 1.71  |
| China Huarong Asset Management Co., Ltd.   | H Shares        | Long                 | Interest of controlled corporation <sup>19</sup> | 90,957,714   | 5.99   | 1.71  |



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

### Notes:

1. These 656,163,737 Shares are directly or indirectly held by Zhengzhou Finance Bureau (鄭州市財政局), including 490,904,755 Shares directly held by Zhengzhou Finance Bureau (鄭州市財政局), 65,258,982 Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), 50,000,000 Shares held by Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and 50,000,000 Shares held by Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) are directly or indirectly wholly-owned by Zhengzhou Finance Bureau (鄭州市財政局). By virtue of the SFO, Zhengzhou Finance Bureau (鄭州市財政局) is deemed to be interested in the Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). Mr. FAN Yutao (樊玉濤), a non-executive Director, is the deputy director of Zhengzhou Finance Bureau (鄭州市財政局).
2. Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) is wholly-owned by Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司), which in turn is owned by Ms. ZHANG Xinya (張欣雅) as to 85%. By virtue of the SFO, both Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) and ZHANG Xinya (張欣雅) are deemed to be interested in the Shares held by Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司).
3. Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) is owned by Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司) as to 97.8%. Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司) is in turn owned by Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and ZHANG Huiqi (張惠琪) as to 90% and 9%, respectively. Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) is owned by ZHANG Huiqi (張惠琪) as to 98%. By virtue of the SFO, Henan Zensun Enterprise Development (Group) Co., Ltd. (河南正商企業發展集團有限責任公司), Beijing Xiangcheng Investment Co., Ltd. (北京祥誠投資有限公司) and ZHANG Huiqi (張惠琪) are deemed to be interested in the Shares held by Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司). ZHANG Huiqi (張惠琪) is the daughter, being above the age of 18, of ZHANG Jiangguo (張敬國), a non-executive Director.
4. Zhongyuan Trust Co., Ltd. (中原信託有限公司) is owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) as to approximately 46.43% and 31.91%, respectively. Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) is owned by Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) as to approximately 45.09%. By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司), Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) and Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) are deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). JI Hongjun (姬宏俊), a non-executive Director, is the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司).
5. These 329,195,683 Shares are directly or indirectly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司), including 89,769,212 Shares directly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and 239,426,471 Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司) which is owned as to approximately 46.43% by Henan Investment Group Co., Ltd. (河南投資集團有限公司). By virtue of the SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司) is deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司).
6. Henan Chendong Industry Co., Ltd. (河南農東實業有限公司) is owned as to 50% and 50% by DU Liling (杜麗玲) and WANG Meilan (王梅蘭), respectively. By virtue of the SFO, each of DU Liling (杜麗玲) and WANG Meilan (王梅蘭) is deemed to be interested in the Shares held by Henan Chendong Industry Co., Ltd. (河南農東實業有限公司).

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

7. LIANG Songwei (梁嵩巍), a non-executive Director, is the chairman of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司).
8. Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) is owned as to 90% by ZHU Zhihui (朱志暉), a Supervisor, and 10% by his spouse, WANG Linhui (王林輝). By virtue of the SFO, ZHU Zhihui (朱志暉) is deemed to be interested in the Shares held by Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司). ZHU Zhihui (朱志暉), a Supervisor, is the chairman of the board of directors of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司).
9. These 223,000,000 Shares are directly held by Hong Kong Oriental Sage Limited (香港東智有限公司), which is wholly-owned by Oriental Sage Limited (東智有限公司). By virtue of the SFO, Oriental Sage Limited (東智有限公司) is deemed to be interested in the Shares held by Hong Kong Oriental Sage Limited (香港東智有限公司).
10. China Goldjoy Credit Limited has a security interest in these 113,000,000 Shares. China Goldjoy Credit Limited is wholly-owned by Stellar Result Limited, which in turn is owned as to 80% by Goldjoy Holding Limited. By virtue of the SFO, each of Stellar Result Limited and Goldjoy Holding Limited is deemed to be interested in the Shares held by China Goldjoy Credit Limited.
11. Goldjoy Holding Limited is wholly-owned by Great Sphere Developments Limited and by virtue of the SFO, Great Sphere Developments Limited is deemed to be interested in the 113,000,000 Shares held by China Goldjoy Credit Limited. In addition, by virtue of the SFO, Great Sphere Developments Limited is also deemed to be interested in 72,802,000 Shares through its certain wholly-owned subsidiaries. Therefore, Great Sphere Developments Limited is deemed to be interested in a total of 185,802,000 Shares.
12. Great Sphere Developments Limited is wholly-owned by China Goldjoy Group Limited, a company listed on the Hong Kong Stock Exchange, which in turn is owned as to approximately 41.64% by Tinmark Development Limited. Tinmark Development Limited is in turn wholly-owned by YAO Jianhui (姚建輝). By virtue of the SFO, each of China Goldjoy Group Limited, Tinmark Development Limited and YAO Jianhui (姚建輝) is deemed to be interested in the Shares in which Great Sphere Developments Limited is deemed to be interested.
13. Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) is owned as to 99.83% by WEI Lidong (尉立東) and Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司) holds a total of 129,000,000 Shares through certain subsidiaries.
14. Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) ("**Hong Kong Xingrui**") is wholly-owned by Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) ("**Xingrui Industrial**"), being a state-owned company under the Zhengzhou Airport Zone Economic Integrated Experimental Zone (Zhengzhou Xinzheng Integrated Free Trade Zone) Management Committee (鄭州航空港經濟綜合實驗區(鄭州新鄭綜合保稅區)管理委員會), which was formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Management Committee (鄭州新鄭綜合保稅區(鄭州航空港區)管理委員會). Xingrui Industrial is owned as to 51% and 49% by Zhengzhou Airport Zone Xinggang Investment Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as: Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司) ("**Zhengzhou Xinggang**"), and Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司) ("**Ruimaotong**"). Ruimaotong is wholly-owned by Jiangsu Jinhe Electricity and Fuel Limited (江蘇管和電力燃料有限公司) ("**Jiangsu Jinhe**"), which is in turn wholly owned by a company (being listed on the Shanghai Stock Exchange) under Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司) ("**Ruimaotong Supply Chain Management**"). Ruimaotong Supply Chain Management is owned as to 60.76% by Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司) ("**Zhengzhou Ruimaotong**"). Zhengzhou Ruimaotong is wholly-owned by Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司)) ("**Zhengzhou Zhongrui**"). Zhengzhou Zhongrui is owned as to 85% by Zhengzhou Ruichang Enterprise Management Consulting Company Limited (鄭州瑞昌企業管理諮詢有限公司) ("**Zhengzhou Ruichang**"), which is owned as to 70% by WAN Yongxing (萬永興). By virtue of the SFO, each of Xingrui Industrial, Zhengzhou Xinggang, Ruimaotong, Jiangsu Jinhe, Ruimaotong Supply Chain Management, Zhengzhou Ruimaotong, Zhengzhou Zhongrui, Zhengzhou Ruichang and WAN Yongxing is deemed to be interested in the Shares held by Hong Kong Xingrui.

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

15. Zhengzhou Zhengdong New District Construction Development Investment Co., Ltd. (鄭州市鄭東新區建設開發投資總公司) was established by the Zhengzhou Zhengdong New District Management Committee (鄭州鄭東新區管理委員會).
16. CITIC Securities Company Limited held 791,955,065 H Shares (long position) of the Bank and 739,211,896 H Shares (short position) of the Bank through its certain wholly-owned subsidiaries. In addition, 741,955,065 H Shares (long position) and 739,211,896 H Shares (short position) involve derivatives in the classes below:
- |  |   |
|--|---|
| 20,068,448 H Shares (long position)  | – Convertible instruments (on-exchange transaction) |
| 721,886,617 H Shares (long position) and 739,211,896 H Shares (short position) | – Settled in cash (curb trading)                    |
17. These 115,501,859 H Shares (long position) and 115,501,859 H Shares (short position) held by Goncius I Limited involve derivatives in the classes below:
- |                                       |   |
|---------------------------------------|---|
| 115,501,859 H Shares (long position)  | – Convertible instruments (on-exchange transaction) |
| 115,501,859 H Shares (short position) | – Settled in cash (curb trading)                    |
18. These 108,282,992 H Shares (long position) held by BNP PARIBAS SA involve derivatives in the class below:
- |                                      |   |
|--------------------------------------|---|
| 108,282,992 H Shares (long position) | – Convertible instruments (on-exchange transaction) |
|--------------------------------------|---|
19. Huarong International Financial Holdings Limited is owned as to 51% by Camellia Pacific Investment Holding Limited. Camellia Pacific Investment Holding Limited is wholly-owned by China Huarong International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd., while Huarong Real Estate Co., Ltd. (華融置業有限責任公司) and Huarong Zhiyuan Investment & Management Co., Ltd. are both wholly-owned by China Huarong Asset Management Co., Ltd. By virtue of the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in the Shares held by Huarong International Financial Holdings Limited. Furthermore, such 90,957,714 H Shares (long position) involve derivatives in the class below:
- |                                     |                                    |
|-------------------------------------|------------------------------------|
| 90,957,714 H Shares (long position) | – Others (on-exchange transaction) |
|-------------------------------------|------------------------------------|

Save as disclosed above, as at June 30, 2018, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

### 3. HOLDERS WITH 5% OR MORE SHAREHOLDING IN THE BANK

As at the end of the Reporting Period, Zhengzhou Finance Bureau (鄭州市財政局) directly held 490,904,755 Domestic Shares (long position), accounting for 9.22% of the total issued ordinary shares of the Bank. In addition, Zhengzhou Finance Bureau is deemed to be interested in an aggregate of the 165,258,982 Domestic Shares (long position) held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司). These 656,163,737 Domestic Shares (long position) in total account for 12.33% of the total issued ordinary shares of the Bank.

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

As at the end of the Reporting Period, Henan Investment Group Co., Ltd. (河南投資集團有限公司) directly held 89,769,212 Domestic Shares (long position) and is deemed to be interested in 239,426,471 Domestic Shares (long position) held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). Such 329,195,683 Domestic Shares (long position) in total account for 6.19% of the total issued ordinary shares of the Bank.

As at the end of the Reporting Period, China Goldjoy Securities Limited (as custodian) held 377,174,000 H Shares (long position), accounting for 7.09% of the total issued ordinary shares of the Bank.

As at the end of the Reporting Period, CITIC Securities Company Limited held an aggregate of 791,955,065 H Shares (long position) and an aggregate of 739,211,896 H Shares (short position) of the Bank, through some of its wholly-owned subsidiaries, accounting for 14.88% and 13.89% of the total issued ordinary shares of the Bank respectively, among which, 741,955,065 H Shares (long position) and 739,211,896 H Shares (short position) involve derivative instruments.

### 4. PLEDGE AND FREEZING OF SHARES OF THE BANK

As at the end of the Reporting Period, to the knowledge of the Bank, 1,440,360,979 ordinary shares of the Bank (accounting for 27.06% of the total issued ordinary Shares) were subject to pledges and 31,478,771 ordinary shares were subject to judicial freezing. No Shares were subject to judicial auction during the Reporting Period.

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

During the six months ended June 30, 2018, there was no purchase, sale or redemption of any listed securities of the Bank by the Bank or any of its subsidiaries.

### 6. THE ISSUANCE OF OFFSHORE PREFERENCE SHARES

#### 6.1 The Issuance and Listing of Offshore Preference Shares

In order to further improve the comprehensive competitiveness of the Bank and enhance the capability of sustainable development, the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,191 million on October 18, 2017 through a private offering in the overseas market according to the approvals from the Former CBRC Henan Bureau (Yu Yin Jian Fu [2017] No. 154) and the CSRC (Zheng Jian Xu Ke [2017] No. 1736). The Offshore Preference Shares (short name of preference share: ZZBNK 17USDPREF; code: 4613) were listed on the Hong Kong Stock Exchange on October 19, 2017 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 59,550,000, all of which were issued and fully paid in US dollars.

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

Based on the Renminbi central parity rate against the US dollar published by the China Foreign Exchange Trade System on October 18, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB7,860 million. Pursuant to applicable laws and regulations and approvals from the CBIRC, the CSRC and other relevant regulatory authorities, the proceeds raised from the Offshore Preference Shares issuance, after deduction of the issuance expenses, have been fully used to replenish the additional tier 1 capital of the Bank, which is consistent with the specific use disclosed beforehand.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcements and circulars of the Bank published on the website of the Hong Kong Stock Exchange and the website of the Bank.

### 6.2 Number of Holders of Offshore Preference Shares and Particulars of Shareholding

As at June 30, 2018, the Bank had one holder of Offshore Preference Shares.

As at June 30, 2018, the top ten holders of Offshore Preference Shares (or nominees) of the Bank are set out as follows:

| Name of shareholder                                | Type of shareholder   | Class of share             | Changes over the Reporting Period<br>(share) | Shareholdings percentage<br>(%) | Number of shares held<br>(share) | Number of shares held subject to trading moratorium<br>(share) | Number of shares pledged or frozen<br>(share) |
|--|-----------------------|----------------------------|--|---------------------------------|----------------------------------|--|---|
| The Bank of New York Depository (Nominees) Limited | Overseas legal person | Offshore Preference Shares | 0  | 100                             | 59,550,000                       | –  | Unknown                                       |

Notes:

1. The number of Offshore Preference Shares held by the shareholder was recorded according to the register of holders of the Offshore Preference Shares of the Bank.
2. As the Offshore Preference Shares were issued through a private offering in the overseas market, information of nominees of the allotted investors was recorded on the register of holders of the Offshore Preference Shares.

### 6.3 Profit Distribution of the Offshore Preference Shares

The dividend of the Offshore Preference Shares is paid in cash on an annual basis. During the Reporting Period, the issued Offshore Preference Shares were not yet due for dividend distribution, and there was no dividend payment in respect of the Offshore Preference Shares. Announcement on payment of a dividend for the Offshore Preference Shares will be published by the Bank separately as and when appropriate.

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

### 6.4 Other Information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored.

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 Financial Reporting Standard 9 Financial Instruments and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

## 7. INITIAL PUBLIC OFFERING OF A SHARES

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

The Bank has submitted an application in respect of the A Share Offering, including the A Share prospectus, to the CSRC, and the CSRC accepted the application on December 22, 2016. The A Share prospectus (application proof was submitted on December 19, 2016) has been published on the website of the CSRC at [www.csrc.gov.cn](http://www.csrc.gov.cn) and (pursuant to Rule 13.10B of the Listing Rules), the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.zzbank.cn](http://www.zzbank.cn) at the same time.

At the 2016 Annual General Meeting of the Bank, a resolution in relation to further extension of the validity period of the plan for A Share Offering was considered and approved, and the validity period would be extended to September 26, 2018. For details, please refer to the circular of the Bank dated April 26, 2017 and the announcements of the Bank dated March 27, 2017 and May 19, 2017, respectively.

In April 2017 and October 2017, the Bank received feedback from the CSRC twice successively and replied in time. During the period, the Bank supplemented and updated the application in respect of the A Share Offering based on the 2016 annual results and the 2017 interim results. As at November 29, 2017, the A Share prospectus of the Bank (application proof was submitted on November 24, 2017) has been made available for review on the CSRC's website at [www.csrc.gov.cn](http://www.csrc.gov.cn) for preliminary publication.

On May 22, 2018, the 80th meeting of the seventeenth session of the Issuance Examination Committee of the CSRC in 2018 was held, at which the application for the offering of A Shares of the Bank was approved.



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

On June 15, 2018, at the 2017 Annual General Meeting of the Bank, a resolution in relation to further extension of the validity period of the plan for A Share Offering was considered and approved, and the validity period would be extended to September 26, 2019. For the details, please refer to the circular of the Bank dated May 18, 2018 and the announcements of the Bank dated April 25, 2018 and June 15, 2018, respectively.

On July 27, 2018, CSRC officially issued a written notice to the Company and announced on the same date that the Company was approved to issue A Shares. No more than 600,000,000 A Shares will be issued with a term of 12 months from the date of approval.

The Bank will disclose further details and developments in respect of the A Share Offering as and when appropriate.

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

## 1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AS AT JUNE 30, 2018

### Directors<sup>1</sup>

| Name                       | Gender | Date of birth  | Position in the Bank               | Term of Office      |
|----------------------------|--------|----------------|------------------------------------|---------------------|
| WANG Tianyu<br>(王天宇)       | M      | March 1966     | Chairman, Executive Director       | 2018.6.15–2021.6.14 |
| SHEN Xueqing<br>(申學清)      | M      | July 1965      | President, Executive Director      | 2018.6.15–2021.6.14 |
| FENG Tao<br>(馮濤)           | M      | September 1963 | Vice Chairman, Executive Director  | 2018.6.15–2021.6.14 |
| FAN Yutao<br>(樊玉濤)         | M      | May 1966       | Non-executive Director             | 2018.6.15–2021.6.14 |
| ZHANG Jingguo<br>(張敬國)     | M      | July 1963      | Non-executive Director             | 2018.6.15–2021.6.14 |
| JI Hongjun<br>(姬宏俊)        | M      | June 1963      | Non-executive Director             | 2018.6.15–2021.6.14 |
| LIANG Songwei<br>(梁嵩巍)     | M      | August 1968    | Non-executive Director             | 2018.6.15–2021.6.14 |
| WANG Shihao<br>(王世豪)       | M      | April 1950     | Non-executive Director             | 2018.7.5–2021.6.14  |
| LI Huaizhen<br>(李懷珍)       | M      | June 1957      | Independent non-executive Director | 2018.6.15–2021.6.14 |
| XIE Taifeng<br>(謝太峰)       | M      | August 1958    | Independent non-executive Director | 2018.6.15–2021.6.14 |
| WU Ge<br>(吳革)              | M      | May 1967       | Independent non-executive Director | 2018.6.15–2021.6.14 |
| CHAN Mei Bo Mabel<br>(陳美寶) | F      | November 1971  | Independent non-executive Director | 2018.6.15–2021.6.14 |
| LI Yanyan<br>(李燕燕)         | F      | January 1968   | Independent non-executive Director | 2018.7.5–2021.6.14  |

*Note 1:* The sixth session of the Board of Directors was elected at the 2017 AGM of the Bank. The new session of the Board of Directors consists of 13 members. The appointments of Mr. WANG Shihao and Ms. LI Yanyan became effective on July 5, 2018.



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

### Supervisors<sup>2</sup>

| Name                 | Gender | Date of birth  | Position in the Bank   | Term of Office      |
|----------------------|--------|----------------|--|---------------------|
| ZHAO Lijuan<br>(趙麗娟) | F      | September 1962 | Chairman of the Board of Supervisors and Employee Supervisor | 2018.6.15–2021.6.14 |
| ZHU Zhihui<br>(朱志輝)  | M      | August 1969    | Shareholder Supervisor                                       | 2018.6.15–2021.6.14 |
| MA Baojun<br>(馬寶軍)   | M      | March 1963     | External Supervisor  | 2018.6.15–2021.6.14 |
| SONG Ke<br>(宋科)      | M      | April 1982     | External Supervisor  | 2018.6.15–2021.6.14 |
| CHENG Jie<br>(成潔)    | F      | December 1968  | Employee Supervisor  | 2018.6.15–2021.6.14 |
| LI Huaibin<br>(李懷斌)  | M      | September 1969 | Employee Supervisor  | 2018.6.15–2021.6.14 |

*Note 2:* The sixth session of the Board of Supervisors was elected at the 2017 AGM of the Bank. Mr. ZHU Zhihui was elected as a Shareholder Supervisor, and Mr. MA Baojun and Mr. SONG Ke was elected as External Supervisors. Before that, Ms. ZHAO Lijuan, Ms. CHENG Jie and Mr. LI Huaibin were elected as Employee Supervisors at the Employee's Representative Meeting of the Bank. Ms. DUAN Ping, Ms. CUI Huarui, Ms. ZHANG Chungce ceased to be Employee Supervisors upon the expiry of the term of office of the fifth session of the Board of Supervisors on June 15, 2018.

### Senior Management

| Name                   | Gender | Date of birth | Position in the Bank                |
|------------------------|--------|---------------|-------------------------------------|
| SHEN Xueqing<br>(申學清)  | M      | July 1965     | President                           |
| XIA Hua<br>(夏華)        | M      | August 1967   | Vice President                      |
| GUO Zhibin<br>(郭志彬)    | M      | October 1968  | Vice President                      |
| SUN Haigang<br>(孫海剛)   | M      | August 1977   | Vice President                      |
| ZHANG Wenjian<br>(張文建) | M      | June 1965     | Vice President                      |
| MAO Yuezhen<br>(毛月珍)   | F      | April 1963    | Vice President, Chief Accountant    |
| FU Chunqiao<br>(傅春喬)   | M      | October 1973  | Secretary of the Board of Directors |
| JIANG Tao<br>(姜濤)      | M      | April 1972    | Chief Information Officer           |
| LI Lei<br>(李磊)         | M      | August 1973   | Assistant to President              |
| ZHANG Houlin<br>(張厚林)  | M      | June 1976     | Assistant to President              |
| WANG Yanli<br>(王豔麗)    | F      | October 1971  | Chief Risk Officer                  |
| WANG Zhaoqi<br>(王兆琪)   | F      | April 1967    | Chief Auditor                       |

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

### 2. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### 2.1 Changes of Directors during the Reporting Period

Upon the expiry of the term of office of the fifth session of the Board of Directors of the Bank, as re-elected or elected at the 2017 AGM of the Bank, a total of 13 Directors have been elected as members of the sixth session of the Board of Directors. Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao were elected as Executive Directors, Mr. FAN Yutao, Mr. ZHANG Jingguo, Mr. JI Hongjun, Mr. LIANG Songwei and Mr. WANG Shihao were elected as Non-executive Directors, Mr. LI Huaizhen, Mr. XIE Taifeng, Mr. WU Ge, Ms. CHAN Mei Bo Mabel and Ms. LI Yanyan were elected as Independent Non-executive Directors. For the details, please refer to the circular of the Bank dated May 18, 2018 and the announcements of the Bank dated April 25, 2018 and June 15, 2018 and the announcement on list of directors and their roles and functions dated July 6, 2018. Ms. XU Jingnan, Mr. MA Jinwei and Mr. YU Zhanglin ceased to be Non-executive Directors upon the expiry of the term of office of the fifth session of the Board of Directors on June 15, 2018.

#### 2.2 Changes of Directors after the Reporting Period

The qualification of Mr. WANG Shihao as a non-executive director and the qualification of Ms. LI Yanyan as an independent non-executive director were approved by the CBIRC Henan Bureau on July 5, 2018. For the details, please refer to the announcement on approvals of the qualification of directorships by the regulatory body published by the Bank on July 6, 2018.

#### 2.3 Changes of Supervisors during the Reporting Period

The proposed appointment of Mr. MA Baojun as an external Supervisor was considered and approved by the Board of Supervisors and was submitted for approval at the 2018 first Extraordinary General Meeting of the Bank. For the details of the proposed appointment of Mr. MA Baojun, please refer to the announcement on change of Supervisor published by the Bank on November 22, 2017. Upon election at the 2018 first Extraordinary General Meeting of the Bank held on January 19, 2018, Mr. MA Baojun was elected as an external Supervisor of the fifth session of the Board of Supervisors.

After approval at the Employees' Representative Meeting of the Bank, Ms. ZHAO Lijuan was re-designated as an Employee Supervisor, Ms. CHENG Jie and Mr. LI Huaibin were elected as Employee Supervisors. Their tenure of office shall be in line with the term of office of the sixth session of the Board of Supervisors. For the details, please refer to the announcement of the Bank on change of supervisors dated April 12, 2018. Ms. DUAN Ping, Ms. CUI Huarui, Ms. ZHANG Chungce ceased to be Employee Supervisors upon the expiry of the term of office of the fifth session of the Board of Supervisors on June 15, 2018.

Upon the expiry of the term of office of the fifth session of the Board of Supervisors of the Bank, as re-elected or elected at the 2017 AGM of the Bank, 3 Supervisors have been elected as members of the sixth session of the Board of Supervisors. Mr. ZHU Zhihui was elected as a Shareholder Supervisor, Mr. SONG Ke and Mr. MA Baojun were elected as external Supervisors. For the details, please refer to the circular of the Bank dated May 18, 2018 and the announcements of the Bank dated April 25, 2018 and June 15, 2018. Ms. MENG Jun and Mr. TANG Yunwei ceased to be a Shareholder Supervisor and an external Supervisor, respectively, upon the expiry of the term of office of the fifth session of the Board of Supervisors on June 15, 2018.

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

### 2.4 Changes of Senior Management during the Reporting Period

As considered and approved at the Board meeting held on January 19, 2018, the Board determined to appoint Mr. SUN Haigang, Mr. ZHANG Wenjian, and Ms. MAO Yuezhen as vice presidents of the Bank, and Ms. WANG Zhaoqi as the chief auditor. The qualifications of Mr. SUN Haigang, Mr. ZHANG Wenjian and Ms. MAO Yuezhen were approved by the Former CBRC Henan Bureau on February 28, 2018 and the qualification of Ms. WANG Zhaoqi was approved by the Former CBRC Henan Bureau on March 8, 2018.

The qualification of Ms. WANG Yanli (王豔麗) as the chief risk officer of the Bank was approved by the Former CBRC Henan Bureau on February 12, 2018.

### 3. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

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

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

As at June 30, 2018, the interests and short positions of Directors, Supervisors and chief executive of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were set out as follows:

| Name                 | Position   | Class of Shares | Nature                             | Number of Shares held directly or indirectly<br>(Shares)<br>(Long position) | Percentage of the relevant class of Shares in issue<br>(%) | Percentage of all ordinary Shares in issue<br>(%) |
|----------------------|------------|-----------------|------------------------------------|---|--|---|
| WANG Tianyu<br>(王天宇) | Director   | Domestic Shares | Beneficial owner                   | 25,003  | 0.0007   | 0.0005  |
| ZHU Zhihui<br>(朱志暉)  | Supervisor | Domestic Shares | Interest of controlled corporation | 199,046,474   | 5.23   | 3.74  |
| CHENG Jie<br>(成潔)    | Supervisor | Domestic Shares | Beneficial owner                   | 6,309   | 0.0002   | 0.0001  |

Save as disclosed above, none of the Directors, Supervisors or chief executive of the Bank held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at June 30, 2018.

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

### 5. STAFF

#### 5.1 Composition

##### *Composition*

*By department/function*

|  | Number of<br>employees | Percentage  |
|--|------------------------|-------------|
| Finance and accounting                         | 1,188                  | 27%         |
| Corporate and retail                           | 88                     | 2%          |
| Risk management, internal audit and compliance | 257                    | 6%          |
| Retail banking                                 | 678                    | 16%         |
| Corporate banking                              | 632                    | 15%         |
| I. T.  | 130                    | 3%          |
| Business management and support                | 1,261                  | 29%         |
| Capital business                               | 79                     | 2%          |
| <b>Total</b>                                   | <b>4,313</b>           | <b>100%</b> |

*By age*

|                       | Number of<br>employees | Percentage  |
|-----------------------|------------------------|-------------|
| 30 years old or below | 2,173                  | 50%         |
| 31–40 years old       | 1,279                  | 30%         |
| 41–50 years old       | 752                    | 17%         |
| Over 50 years old     | 109                    | 3%          |
| <b>Total</b>          | <b>4,313</b>           | <b>100%</b> |

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

*By level of education*

|                          | <b>Number of employees</b> | <b>Percentage</b> |
|--------------------------|----------------------------|-------------------|
| Master's degree or above | 584                        | 14%               |
| Bachelor's degree        | 3,145                      | 73%               |
| Non-degree tertiary      | 493                        | 11%               |
| Others                   | 91                         | 2%                |
| Total                    | 4,313                      | 100%              |

### 5.2 Staff Training Plan

The Bank formulated the annual training plan based on the annual development strategies and the actual business development needs. The Bank focused on capacity building, improved its training system and strengthened the construction of the training management mechanism, providing a strong talent pool and institutional support for the long-term development of the Bank. During the Reporting Period, the Bank consolidated the training resources at its headquarters, branches and sub-branches as well as launching leadership training for senior-/mid-level management, training camps for president of model bank in commercial logistics, training for professional officials, training on professional knowledge and marketing skills for junior staff, new staff trainings and reserve cadres training for head office staff according to the core business of each line. In addition, the Bank has remained committed to building mobile learning platforms and internal instructor teams, offering sound faculty and on-line platform support. A total of 94 training sessions were held in the first half of 2018, involving 10,930 participants and 1,632 training hours. Among which, there were 63 training sessions for senior-/mid-level management and relevant business lines, with 10,709 participants attending training, and 25 external training sessions for staff at the headquarters, branches and sub-branches, involving 56 participants.

### 5.3 Remuneration Policy for Staff

The Bank adheres to the principles of "fairness, competition and incentivisation" in formulating its remuneration policy. In other words, the remuneration policy shall be able to reflect external fairness, internal fairness and individual fairness of salary; it shall be conducive to enhancing our market competitiveness and attractiveness to talented people. When adjusting its remuneration structure, the Bank will increase the level of remuneration for positions whose remunerations are far below the market level based on the results of a market salary survey, so as to ensure the level of remuneration offered by us is competitive; and it shall also be able to make our salary more incentivised, namely to motivate our employees by incorporating floating wages and performance-linked bonus and other incentive components into our salary packages, and to provide employees at different positions with equal promotion opportunities by designing different promotion channels. The Bank makes social insurance contributions and housing provident fund contributions and provides other employee benefit packages for employees in accordance with applicable laws, rules and regulations of the PRC.

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

### 6. BASIC INFORMATION OF INSTITUTIONS UNDER THE BANK

The following table sets out the branches and sub-branches of the Bank as of June 30, 2018:

| Region              | Name of branch                          | Business address (China)  | Notes   |
|---------------------|---|---|---|
| Zhengzhou, Henan    | Headquarters                            | 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province   | In charge of 118 branch institutions in Zhengzhou and 48 institutions in provincial prefectures and cities for conducting external business |
| Nanyang, Henan      | Nanyang                                 | The junction of Zhongjing Road and Fanli Road, Wancheng District, Nanyang City, Henan Province  | In charge of 10 institutions for conducting external business   |
| Xinxiang, Henan     | Xinxiang                                | No. 278, Xiangyang Road, Xinxiang City, Henan Province  | In charge of 7 institutions for conducting external business  |
| Luoyang, Henan      | Luoyang                                 | Longan Building (隆安大廈), the junction of Guanlin Road and Houzaimen Street, Luolong District, Luoyang City, Henan Province                                       | In charge of 7 institutions for conducting external business  |
| Anyang, Henan       | Anyang                                  | Yiwu International Business & Trade Mansion, the junction of Zhonghua Road and Delong Street, Andong New District, Anyang City, Henan Province                  | In charge of 5 institutions for conducting external business  |
| Shangqiu, Henan     | Shangqiu                                | Floor A2B, Siji Harbour, Wenhua Road North and Zhongzhou Road East, Liangyuan District, Shangqiu City, Henan Province   | In charge of 5 institutions for conducting external business  |
| Xuchang, Henan      | Xuchang                                 | Juncheng International Building (亨通君成國際大廈), southwest corner at the junction of Liancheng Avenue and Weiwen Road, Weidu District, Xuchang City, Henan Province  | In charge of 3 institutions for conducting external business  |
| Luohe, Henan        | Luohe                                   | Floor 1-5, Changjian International (昌建國際), the junction of Songshan West Branch Road and Mudanjiang Road, Yancheng District, Luohe city, Henan Province         | In charge of 3 institutions for conducting external business  |
| Xinyang, Henan      | Xinyang                                 | Floor 1-2, Zhongle Baihua Mansion (中樂百花公館), the junction of Xinqi Avenue and Xinba Street, Yangshan New District, Xinyang City, Henan Province                  | In charge of 4 institutions for conducting external business  |
| Puyang, Henan       | Puyang                                  | The northwest of junction of Renmin Road and Kaizhou Road, Hualong District, Puyang City, Henan Province  | In charge of 1 institution for conducting external business   |
| Pingdingshan, Henan | Pingdingshan                            | The southeast of junction of Kaiyuan Road and Qinggong Road, Zhanhe District, Pingdingshan City, Henan Province   | In charge of 1 institution for conducting external business   |
| Zhumadian, Henan    | Zhumadian                               | The junction of Huaihe Avenue and Tianzhongshan Avenue, Zhumadian City, Henan Province  | In charge of 1 institution for conducting external business   |
| Kaifeng, Henan      | Kaifeng                                 | The junction of Jinming Avenue and Hanxing Road, Kaifeng City, Henan Province   | In charge of 1 institution for conducting external business   |
| Zhengzhou, Henan    | Small Business Financial Service Centre | Room 102, 1-2/F and Rooms 301-309, 3/F, 4A, North of Longhu Zhonghuan South Road and East of Jiuru Road, Zhengdong New District, Zhengzhou City, Henan Province | In charge of 13 institutions for conducting external business   |

# CHAPTER VI CORPORATE GOVERNANCE

## 1. OVERVIEW OF CORPORATE GOVERNANCE

In the first half of 2018, the Bank strictly complied with the Listing Rules and relevant regulatory requirements in the PRC, and strived to improve the Bank's corporate governance mechanism, as well as to enhance and improve the Bank's corporate governance. The Bank observed the Corporate Governance Code in Appendix 14 to the Listing Rules, and met the relevant requirements on corporate governance of commercial banks in the PRC and established a sound corporate governance system, in which the duties of the general meeting, the Board of Directors, the Board of Supervisors and senior management are clearly defined and performed separately, and with effective checks and balances in place to ensure efficient coordination and scientific decision making, thereby fully protecting the interests of Shareholders and enhancing corporate value. The Board of Directors is of the view that the Bank complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules as well as the laws and regulations in respect of inside information disclosure and the Listing Rules during the Reporting Period. The Directors are not aware of any information indicating that the Bank did not comply with the code provisions set out in the Corporate Governance Code during the Reporting Period.

During the Reporting Period, each of the Bank's general meeting, the Board of Directors, the Board of Supervisors and the committees under the Board of Directors and the Board of Supervisors performed their duties, and engaged in proactive operations so as to ensure the Bank's sound operation and compliance with regulations and sustained healthy development. During the Reporting Period, the Bank held 39 meetings in total. Among which, there was one extraordinary general meeting and one annual general meeting of Shareholders; five meetings of the Board of Directors, 23 meetings of the special committees of the Board; four meetings of the Board of Supervisors and five meetings of the special committees of the Board of Supervisors.

## 2. CONVENING OF GENERAL MEETING

During the Reporting Period, the Bank held one extraordinary general meeting and one annual general meeting, with details as follow:

On January 19, 2018, the Bank held the 2018 first extraordinary general meeting in Zhengzhou, Henan Province. In the meeting, two resolutions regarding the status report on the use of previously raised proceeds as of June 30, 2017 and the appointment of Mr. MA Baojun as an external Supervisor were considered and approved.

On June 15, 2018, the Bank held the 2017 AGM in Zhengzhou, Henan Province. In the meeting, 19 resolutions regarding, among other things, the 2017 Board of Directors' report, the 2017 Board of Supervisors' report, the 2017 annual financial statements, the 2018 financial budget, the 2017 profit distribution plan, the amendments to the Articles of Association, the extension of validity period of the A Share Offering Plan and the re-election and election of Directors and Supervisors were considered and approved.

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

## CHAPTER VI CORPORATE GOVERNANCE (CONTINUED)

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

During the Reporting Period, the Board of Directors held five meetings, at which 51 resolutions were considered and approved. The special committees of the Board of Directors held 23 meetings in total, at which 51 resolutions were considered and approved. The Strategic Development Committee held two meetings and considered and approved two resolutions; the Risk Management Committee held two meetings and considered and approved nine resolutions; the Related Party Transactions Control Committee held five meetings and considered and approved 12 resolutions; the Audit Committee held three meetings and considered and approved 11 resolutions; the Nomination Committee held five meetings and considered and approved nine resolutions; the Remuneration and Assessment Committee held three meetings and considered and approved four resolutions; and the Consumer Rights and Interests Protection Committee held three meetings and considered and approved four resolutions.

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

During the Reporting Period, the Board of Supervisors held four meetings, at which 15 resolutions were considered and approved. The Nomination Committee of the Board of Supervisors held four meetings and considered and approved seven resolutions, and the Supervision Committee of the Board of Supervisors held one meeting and considered and approved one resolution.

### 5. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Bank, based on its actual conditions, has amended some articles in the Articles of Association in order to conscientiously implement the relevant requirements of incorporating the Party building work into the articles of association as required by the higher-level Party committee and regulatory departments and to comply with the procedures and requirements concerning the election of employee representative directors and supervisors as stipulated under the Company Law of the People's Republic of China. The amendments were considered and approved at the 2017 AGM but have not obtained the approval from the CBIRC Henan Bureau yet. For details about the amendments, please refer to the circular of the Bank dated May 18, 2018 and the announcements dated March 22, 2018, April 25, 2018 and June 15, 2018, respectively.

### 6. INTERNAL CONTROL AND INTERNAL AUDIT

#### 6.1 Internal Control

In accordance with Basic Norms of Corporate Internal Control (《企業內控基本規範》) and the Guidelines on Internal Control of Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations and regulatory rules, the Bank established an organizational structure centering on general meetings, the Board of Directors, the Board of Supervisors, and the senior management as well as an internal control system involving all staff; established a balancing mechanism including vertical authorization and horizontal supervision among superiors and subordinates and various positions according to the organizational structure hierarchy and the establishment of positions; established an internal control system covering various businesses and management activities of the Bank in accordance with the laws and regulations and regulatory requirements, and amended and supplemented it pursuant to the laws and regulations as well as changes in the external operating environment and the needs of risk control in a timely manner.



## CHAPTER VI CORPORATE GOVERNANCE (CONTINUED)

The Bank put emphasis on internal control culture development and spared no effort in creating a sound internal control environment that is characterised by honesty and compliance. The Bank continued to enrich and improve various risk management systems and internal control measures, enhance the identification, measurement, control and monitoring of various types of risks (credit risk, market risk, liquidity risk, operational risk, etc.), attach importance to the internal control of credit business, finance and accounting, capital business, intermediary business and related party transactions, and improve the scientific and forward-looking management of various types of risks to guarantee the stable operation of management work.

The Bank has established a comprehensive internal control assessment system. In effectively segregating duties, the Board, the Board of Supervisors and the senior management assess the operation and management activities of each level and business line based on their functions: the internal audit office of the Board conducts internal audits regularly, assessing the internal control of the Bank; the Board of Supervisors keeps improving the supervision mechanism, and procures the Board and the senior management of the Bank to fulfil their internal control responsibilities; the compliance department supervises internal control and compliance by daily inspections and ad-hoc inspections, gives risk warnings and facilitates the improvement of internal control measures.

During the Reporting Period, the Bank revised and improved 154 internal control systems. Apart from the daily compliance supervision, the Bank also organized inspections on vaults and agency outlets, inspections on data governance and statistical management, and flight examination and other special inspections. It also conducted key inspections on 15 branches and sub-branches. Business risks and systemic deficiencies identified during such inspections have been reported to relevant leaders and competent departments through risk warnings, compliance advice and system assessment, so as to improve and enhance our business processes and internal control measures in a proactive manner.

### 6.2 Internal Audit

In accordance with the requirements of the Guidelines on Internal Audit for Commercial Banks and Guidelines on Internal Control of Commercial Banks, the Bank established an independent and vertical internal audit management system. As the executive body of the internal audit of the Bank, the internal audit office of the Board of Directors works under the specific guidance of the Audit Committee of the Board of Directors. In accordance with regulatory requirements and relevant system requirements, the internal audit office conscientiously performs its duties, regularly reports to the Board of Directors and the Board of Supervisors on the progress of the audit work, and timely submits audit reports and informs senior management.

Adhering to the principles of independence, objectivity and significance, the internal audit department of the Bank established overall planning of the internal audit and annual work plan of the Bank, and made arrangements for and implemented the audit of various business activities, operations and financial obligations of key staff members of the Bank during their tenure of service; inspected and evaluated the implementation of laws, regulations and rules, and suggested improvements to management.

During the Reporting Period, following the principle of risk-oriented audit, the internal audit department of the Bank furthered its efforts in team-building, completed its audit work as scheduled in an efficient manner and strived to improve the audit results. It also identified issues in the operation and business management of the Bank, and reported to the Board of Directors in a timely manner to give feedback to the management, and monitored the formulation and implementation of corresponding rectification measures, thereby effectively improving the internal control and management mechanism and system of the Bank.

# CHAPTER VII SIGNIFICANT EVENTS

## 1. ISSUANCE AND REPURCHASE OF BONDS

The Bank issued financial bonds in 2013 with aggregate principal of RMB5 billion, divided into two types, namely (1) 3-year term with a fixed interest rate of 4.58%, which matured on May 20, 2016 and were matured and settled by the Bank; and (2) 5-year term with a fixed interest rate of 4.80%, which matured on May 20, 2018 and were matured and settled by the Bank.

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

The Bank issued the first tranche of the tier II capital bonds in an amount of RMB3 billion in the national interbank bond market on December 19, 2016, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.10%.

The Bank issued the second tranche of the tier II capital bonds in an amount of RMB2 billion in the national interbank market on March 30, 2017, with a fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.80%.

The Bank issued green financial bonds (Bonds code: 1720065) in an amount of RMB3 billion on September 5, 2017, for a maturity term of three years and a coupon rate of 4.7%. The proceeds from the issuance of the bonds will be specially used for green industry projects as defined in the List of Projects Supported by Green Financial Bonds (《綠色金融債券支持項目目錄》) formulated by the Green Finance Committee of China Society of Finance & Banking (中國金融學會綠色金融專業委員會).

## 2. SIGNIFICANT LITIGATION AND ARBITRATION

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

## CHAPTER VII SIGNIFICANT EVENTS (CONTINUED)

### 3. SIGNIFICANT RELATED PARTY TRANSACTIONS

In accordance with the Management Measures on Related Party Transactions Between Commercial Banks and Insiders or Shareholders issued by the CBIRC, the Listing Rules, the Accounting Standards for Business Enterprises, and other laws, administrative rules, departmental regulations, regulatory documents as well as the relevant provisions of the Articles of Association, the Bank continuously improved its management mechanism of related party transactions through its daily operations, relentlessly pushed for standardized management of related party transactions, regularly updated its list of related parties and prudently approved related party transactions. During the Reporting Period, related party transactions between the Bank and its related parties are conducted in the ordinary course of its business with terms and prices agreed in accordance with the principles of good faith and fairness as well as conditions no better than non-related party transactions of the same type. Such related party transactions had no significant impact on the operation results and financial conditions of the Bank and the indicators on the control of related party transactions were in compliance with related regulations of regulatory authorities.

#### 3.1 Related Corporations Directly or Indirectly Holding 5% or more Domestic Shares of the Bank

| Name of the related party                     | Relationship with the related party | Place of registration | Organization type                                   | Registered capital | Legal representative | Main business  | Change(s) in the Reporting Period                                      |
|---|-------------------------------------|-----------------------|---|--------------------|----------------------|--|--|
| Zhengzhou Finance Bureau (鄭州市財政局)             | Shareholder                         | N/A                   | Government departments                              | N/A                | N/A                  | N/A  | Nil  |
| Henan Investment Group Co., Ltd. (河南投資集團有限公司) | Shareholder                         | Zhengzhou, Henan      | Company with limited liability (wholly state-owned) | RMB12 billion      | Liu Xinyong          | Investment management, investment in construction projects, industrial production information and machinery and equipment required for construction projects, sale of raw materials of products for investment projects (other than those subject to national specific regulations); housing lease (For those subject to approval among the abovementioned, the company is not allowed to operate such business before obtaining approvals.) | The legal representative was changed from Zhu Lianchang to Liu Xinyong |

## CHAPTER VII SIGNIFICANT EVENTS (CONTINUED)

### 3.2 Related Party Transactions During The Reporting Period

During the Reporting Period, related party transactions approved by Related Party Transactions Control Committee of the Board or the Board are set out below:

#### 3.2.1 Credit grant related party transactions

| Name of the related party  | Credit grant limit | Purpose of the credit grant  |
|--|--------------------|--|
| ZH International Holdings Limited<br>(正恒國際控股有限公司)                                | US\$100 million    | Investment in the bonds of ZH International Holdings Limited (正恒國際控股有限公司) listed in Hong Kong                                      |
| China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司)                               | RMB300 million     | Subscription of the ultra-short financing bonds (the second tranche in 2018) of China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) |
| Zhengzhou Municipal Construction Engineering General Corporation<br>(鄭州市市政工程總公司) | RMB300 million     | Liquidity lending  |
| Henan Kanghui Cement Products Co., Ltd. (河南康暉水泥製品有限公司)                           | RMB150 million     | Liquidity lending  |
| Queshan Zhengyin Country Bank  | RMB300 million     | Interbank general credit grant   |
| Xunxian Zhengyin Country Bank  | RMB300 million     | Interbank general credit grant   |
| Xunxian Zhengyin Country Bank  | RMB30 million      | Providing guarantee to the agriculture supporting relending for Xunxian Zhengyin Country Bank, one of its subsidiaries             |
| Fugou Zhengyin Country Bank  | RMB150 million     | Providing guarantee to the agriculture supporting relending for Fugou Zhengyin Country Bank, one of its subsidiaries               |
| Queshan Zhengyin Country Bank  | RMB50 million      | Providing guarantee to the agriculture supporting relending for Queshan Zhengyin Country Bank, one of its subsidiaries             |

#### 3.2.2 Other related party transactions

The Bank has underwritten the targeted debt financing instrument of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司) amounting to RMB2 billion, which constitutes a related party transaction on the provision of services.

## CHAPTER VII SIGNIFICANT EVENTS (CONTINUED)

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

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

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

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

### **6. SIGNIFICANT CONTRACTS AND INFORMATION ON THEIR PERFORMANCE**

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

### **7. AUDIT REVIEW**

The financial statements for the six months ended June 30, 2018 prepared by the Bank according to the IFRSs are unaudited but have been reviewed by KPMG, Certified Public Accountants, and the auditor's reports were unqualified. The interim report has been reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

### **8. SHARE OPTION SCHEME AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD**

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

### **9. APPOINTMENT AND DISMISSAL OF AUDITORS**

Upon consideration and approval at the 2017 AGM, the Bank reappointed KPMG and KPMG Huazhen (Special General Partnership) as the Bank's international and domestic auditors for 2018, respectively, whose term of office will end after the Bank's annual general meeting for 2018.

### **10. SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS AND MERGERS OF BUSINESSES**

During the Reporting Period, the Bank had no significant acquisition or disposal of assets or mergers of businesses with adverse impact on the operation results and financial conditions of the Bank.

### 11. PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

#### 2017 Profit Distribution

According to Article 18 of the Measures for the Administration of Securities Issuance and Underwriting of the CSRC, if listed companies with a plan for issuance of securities have any profit distribution proposal or conversion of capital reserve into share capital proposal which has not yet been submitted to shareholders' general meeting for voting, or when such proposal has been approved by the shareholders' general meeting but has not been implemented yet, the issuance of securities can only be proceeded with after such proposal has been implemented. Prior to the implementation of the relevant plans, the lead underwriter shall not underwrite the securities issued by the listed company. In consideration of the work progress in respect of the issuance of A Shares of the Bank, the Board proposed that no final dividend would be distributed for the year of 2017 and such profit distribution plan proposing no dividend was considered and approved by the 2017 AGM of the Bank. For details about not distributing a final dividend for the year 2017, please refer to the circular dated May 18, 2018 and the announcements dated April 25, 2018 and June 15, 2018 of the Bank.

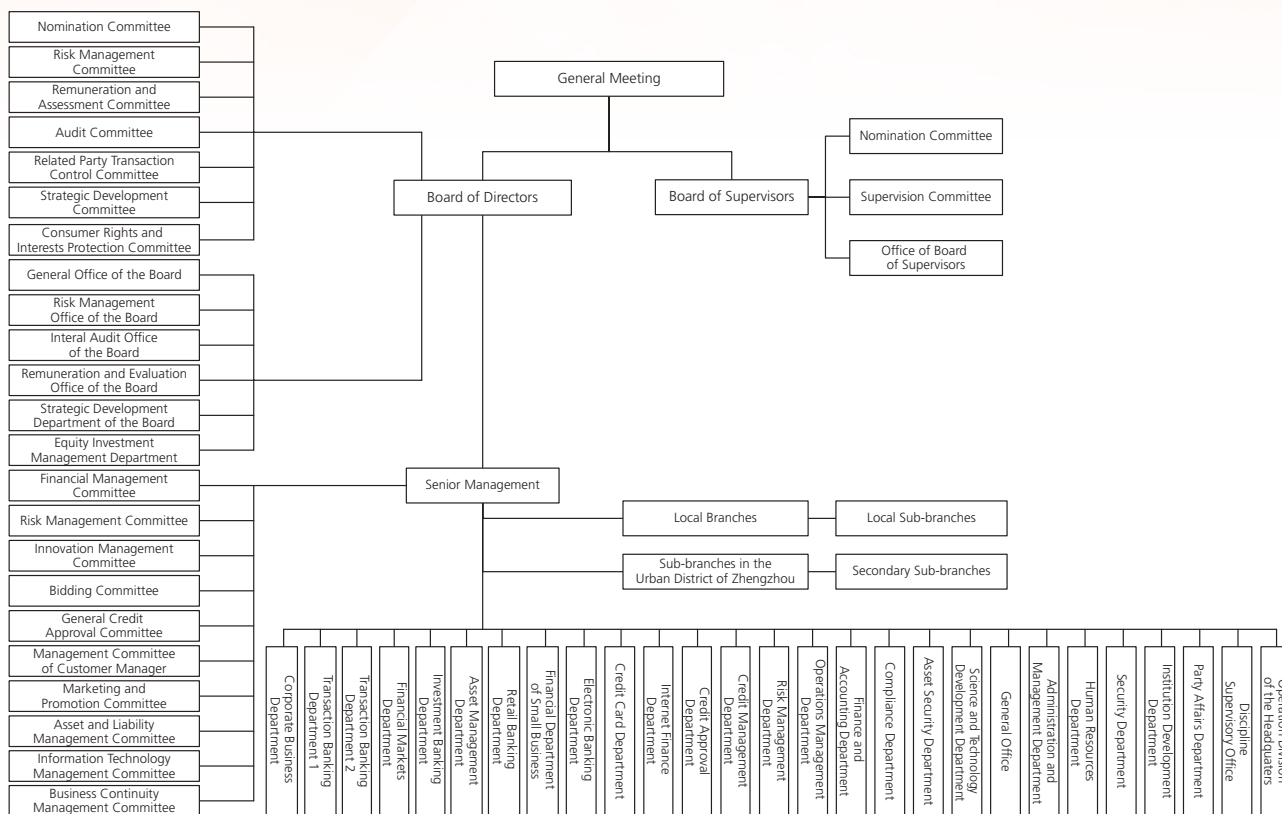
#### 2018 Interim Profit Distribution

Pursuant to the Bank's dividend distribution policy, and based on the Bank's detailed results of operation in the first half of 2018, the Board does not propose distribution of an interim dividend for the six months ended June 30, 2018 (same period of 2017: nil).

### 12. PLEDGE OF SIGNIFICANT ASSETS

During the Reporting Period, the Bank had not pledged any significant assets.

# CHAPTER VIII ORGANIZATIONAL STRUCTURE



# CHAPTER IX INTERIM FINANCIAL REPORT

## REPORT ON REVIEW OF INDEPENDENT AUDITOR'S REPORT

**Review report to the board of directors of Bank of Zhengzhou Co., Ltd.**

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

### INTRODUCTION

We have reviewed the interim financial report set out on pages 87 to 233 which comprises the consolidated statement of financial position of Bank of Zhengzhou Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

### SCOPE OF REVIEW

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

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

#### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

August 18, 2018



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|                                      | Note | Six months ended 30 June |                     |
|--------------------------------------|------|--------------------------|---------------------|
|                                      |      | 2018<br>(unaudited)      | 2017<br>(unaudited) |
| Interest income                      |      | 8,920,749                | 8,536,680           |
| Interest expense                     |      | (6,099,125)              | (4,477,086)         |
| <b>Net interest income</b>           | 4    | <b>2,821,624</b>         | 4,059,594           |
| Fee and commission income            |      | 993,991                  | 932,107             |
| Fee and commission expense           |      | (35,415)                 | (22,797)            |
| <b>Net fee and commission income</b> | 5    | <b>958,576</b>           | 909,310             |
| Net trading losses                   | 6    | (71,054)                 | (163,299)           |
| Net gains arising from investments   | 7    | 1,416,422                | 33,456              |
| Other operating income               | 8    | 10,810                   | 20,766              |
| <b>Operating income</b>              |      | <b>5,136,378</b>         | 4,859,827           |
| Operating expenses                   | 9    | (1,429,585)              | (1,133,806)         |
| Impairment losses on assets          | 10   | (696,523)                | (737,106)           |
| <b>Operating profit</b>              |      | <b>3,010,270</b>         | 2,988,915           |
| Share of profits of associates       | 20   | 26,331                   | 18,810              |
| <b>Profit before taxation</b>        |      | <b>3,036,601</b>         | 3,007,725           |
| Income tax expense                   | 11   | (653,836)                | (682,726)           |
| <b>Profit for the period</b>         |      | <b>2,382,765</b>         | 2,324,999           |

The notes on pages 98 to 229 form part of this interim financial report.

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

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note | Six months ended 30 June |                     |
|--|------|--------------------------|---------------------|
|  |      | 2018<br>(unaudited)      | 2017<br>(unaudited) |
| <b>Net profit attributable to:</b>   |      |                          |                     |
| Equity shareholders of the Bank  |      | 2,366,553                | 2,271,396           |
| Non-controlling interests  |      | 16,212                   | 53,603              |
|  |      | <b>2,382,765</b>         | 2,324,999           |
| <b>Profit for the period</b>   |      | <b>2,382,765</b>         | 2,324,999           |
| <b>Other comprehensive income:</b>   |      |                          |                     |
| Other comprehensive income net of tax attributable to equity shareholders of the Bank          |      |                          |                     |
| Items that may be reclassified subsequently to profit or loss                                  |      |                          |                     |
| – Net proceeds from financial assets measured at fair value through other comprehensive income |      | 8,716                    | –                   |
| – Available-for-sale financial assets: net movement in the fair value reserve                  |      | –                        | 414                 |
| Items that will not be reclassified subsequently to profit or loss                             |      |                          |                     |
| – Remeasurement of net defined benefit liability   |      | 12,895                   | (5,028)             |
| Non-controlling interests  |      | 1,776                    | –                   |
| <b>Other comprehensive income net of tax</b>   |      | <b>23,387</b>            | (4,614)             |
| <b>Total comprehensive income</b>  |      | <b>2,406,152</b>         | 2,320,385           |
| <b>Total comprehensive income attributable to:</b>   |      |                          |                     |
| Equity shareholders of the Bank  |      | 2,388,164                | 2,266,782           |
| Non-controlling interests  |      | 17,988                   | 53,603              |
|  |      | <b>2,406,152</b>         | 2,320,385           |
| Basic and diluted earnings per share ( <i>in RMB</i> )   | 12   | 0.44                     | 0.43                |

The notes on pages 98 to 229 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note | 30 June<br>2018<br>(unaudited) | 31 December<br>2017<br>(audited) |
|--|------|--------------------------------|----------------------------------|
| <b>Assets</b>  |      |                                |                                  |
| Cash and deposits with central bank                                    | 13   | 45,853,549                     | 45,635,132                       |
| Deposits with banks and other financial institutions                   | 14   | 2,484,340                      | 4,723,649                        |
| Placements with banks and other financial institutions                 | 15   | 6,136,463                      | 15,297,528                       |
| Derivative financial assets  | 27   | 67,385                         | –                                |
| Financial assets held under resale agreements                          | 16   | 10,141,078                     | 4,407,476                        |
| Loans and advances to customers  | 17   | 134,826,058                    | 124,455,942                      |
| Financial investments:   |      |                                |                                  |
| Financial investments at fair value through profit or loss             | 18   | 56,948,805                     | 11,849,297                       |
| Financial investments at fair value through other comprehensive income | 18   | 1,398,383                      | –                                |
| Financial investments measured at amortised cost                       | 18   | 164,836,945                    | –                                |
| Available-for-sale financial assets                                    | 18   | –                              | 35,086,298                       |
| Held-to-maturity investments   | 18   | –                              | 59,267,821                       |
| Loans and receivables  | 18   | –                              | 116,470,830                      |
| Finance lease receivables  | 19   | 13,334,024                     | 10,490,994                       |
| Interest in associates   | 20   | 295,242                        | 280,191                          |
| Property and equipment   | 21   | 1,874,204                      | 1,813,326                        |
| Deferred tax assets  | 22   | 1,370,089                      | 1,270,416                        |
| Other assets   | 23   | 4,069,465                      | 4,779,987                        |
| <b>Total assets</b>  |      | <b>443,636,030</b>             | <b>435,828,887</b>               |

The notes on pages 98 to 229 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note | 30 June<br>2018<br>(unaudited) | 31 December<br>2017<br>(audited) |
|--|------|--------------------------------|----------------------------------|
| <b>Liabilities</b>                                     |      |                                |                                  |
| Due to central bank                                    | 24   | 1,599,000                      | 1,599,550                        |
| Deposits from banks and other financial institutions   | 25   | 27,777,978                     | 28,934,366                       |
| Placements from banks and other financial institutions | 26   | 18,045,209                     | 22,348,389                       |
| Derivative financial liabilities                       | 27   | 45,037                         | 32,310                           |
| Financial assets sold under repurchase agreements      | 28   | 19,724,750                     | 14,085,500                       |
| Deposits from customers                                | 29   | 263,112,725                    | 255,407,398                      |
| Tax payable  |      | 368,532                        | 666,138                          |
| Debt securities issued                                 | 30   | 71,367,376                     | 73,170,060                       |
| Other liabilities                                      | 31   | 6,704,864                      | 6,145,811                        |
| <b>Total liabilities</b>                               |      | <b>408,745,471</b>             | <b>402,389,522</b>               |
| <b>Equity</b>  |      |                                |                                  |
| Share capital  | 32   | 5,321,932                      | 5,321,932                        |
| Other equity instruments                               |      |                                |                                  |
| Include: preference shares                             | 35   | 7,825,508                      | 7,825,508                        |
| Capital reserve  | 33   | 3,054,869                      | 3,054,869                        |
| Surplus reserve  | 33   | 2,054,756                      | 2,054,756                        |
| General reserve  | 33   | 5,520,320                      | 5,520,320                        |
| Fair value reserve                                     | 33   | (15,217)                       | (22,667)                         |
| Remeasurement of net defined benefit liability         | 33   | (39,719)                       | (52,614)                         |
| Retained earnings                                      | 34   | 9,979,535                      | 8,503,783                        |

The notes on pages 98 to 229 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | <b>30 June<br/>2018<br/>(unaudited)</b> | 31 December<br>2017<br>(audited) |
|--|---|----------------------------------|
| Total equity attributable to equity shareholders of the Bank | <b>33,701,984</b>                       | 32,205,887                       |
| Non-controlling interests                                    | <b>1,188,575</b>                        | 1,233,478                        |
| <b>Total equity</b>  | <b>34,890,559</b>                       | 33,439,365                       |
| <b>Total liabilities and equity</b>                          | <b>443,636,030</b>                      | 435,828,887                      |

Approved and authorised for issue by the board of directors on 18 August 2018.

**Wang Tianyu**

Chairman of the Board of Directors  
*Executive Director*

**Shen Xueqing**

President  
*Executive Director*

**Mao Yuezhen**

*Chief accountant*

**Li Guoquan**

*General Manager of the  
Planning and  
Finance Department*

(Company chop)

The notes on pages 98 to 229 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

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

The notes on pages 98 to 229 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note     | Attributable to equity shareholders of the Bank |                          |                 |                 |                 |                    |  |                   |            |                           |              |
|--|----------|---|--------------------------|-----------------|-----------------|-----------------|--------------------|--|-------------------|------------|---------------------------|--------------|
|  |          | Share capital                                   | Other equity instruments | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Remeasurement of net defined benefit liability | Retained earnings | Sub-total  | Non-controlling interests | Total equity |
| Balance at 1 July 2017   |          | 5,321,932                                       | -                        | 3,054,204       | 1,632,893       | 4,529,565       | 3,255              | (57,287)                                       | 7,907,773         | 22,392,335 | 680,760                   | 23,073,095   |
| Profit for the year  |          | -   | -                        | -               | -               | -               | -                  | -  | 2,008,628         | 2,008,628  | (90)                      | 2,008,538    |
| Other comprehensive income                                       | 33(d)(e) | -   | -                        | -               | -               | -               | (25,922)           | 4,673  | -                 | (21,249)   | -                         | (21,249)     |
| Total comprehensive income                                       |          | -   | -                        | -               | -               | -               | (25,922)           | 4,673  | 2,008,628         | 1,987,379  | (90)                      | 1,987,289    |
| Share capital invested by shareholders                           |          |   |                          |                 |                 |                 |                    |  |                   |            |                           |              |
| - Share capital invested by other equity instrument holders      | 35       | -   | 7,825,508                | -               | -               | -               | -                  | -  | -                 | 7,825,508  | -                         | 7,825,508    |
| - Non-controlling interests from the establishment of subsidiary |          | -   | -                        | -               | -               | -               | -                  | -  | -                 | -          | 49,000                    | 49,000       |
| - Share capital invested by non-controlling interests holders    |          | -   | -                        | -               | -               | -               | -                  | -  | -                 | -          | 503,750                   | 503,750      |
| - Others   |          | -   | -                        | 665             | -               | -               | -                  | -  | -                 | 665        | 58                        | 723          |
| Sub-total  |          | -   | 7,825,508                | 665             | -               | -               | -                  | -  | -                 | 7,826,173  | 552,808                   | 8,378,981    |
| Appropriation of profit:   |          |   |                          |                 |                 |                 |                    |  |                   |            |                           |              |
| - Appropriation to surplus reserve                               | 33(b)    | -   | -                        | -               | 421,863         | -               | -                  | -  | (421,863)         | -          | -                         | -            |
| - Appropriation to general reserve                               | 33(c)    | -   | -                        | -               | -               | 990,755         | -                  | -  | (990,755)         | -          | -                         | -            |
| Sub-total  |          | -   | -                        | -               | 421,863         | 990,755         | -                  | -  | (1,412,618)       | -          | -                         | -            |
| Balance at 31 December 2017 (audited)                            |          | 5,321,932                                       | 7,825,508                | 3,054,869       | 2,054,756       | 5,520,320       | (22,667)           | (52,614)                                       | 8,503,783         | 32,205,887 | 1,233,478                 | 33,439,365   |

The notes on pages 98 to 229 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|                                     | Attributable to equity shareholders of the Bank |               |                          |                 |                 |                 |                    |  |                   |            |                           |              |
|-------------------------------------|---|---------------|--------------------------|-----------------|-----------------|-----------------|--------------------|--|-------------------|------------|---------------------------|--------------|
|                                     | Note  | Share capital | Other equity instruments | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Remeasurement of net defined benefit liability | Retained earnings | Sub-total  | Non-controlling interests | Total equity |
| Balance at 31 December 2017         |   | 5,321,932     | 7,825,508                | 3,054,869       | 2,054,756       | 5,520,320       | (22,667)           | (52,614)                                       | 8,503,783         | 32,205,887 | 1,233,478                 | 33,439,365   |
| Changes in accounting policies      | 3   | -             | -                        | -               | -               | -               | (1,266)            | -  | (890,801)         | (892,067)  | (62,891)                  | (954,958)    |
| Balance at 1 January 2018 adjusted  |   | 5,321,932     | 7,825,508                | 3,054,869       | 2,054,756       | 5,520,320       | (23,933)           | (52,614)                                       | 7,612,982         | 31,313,820 | 1,170,587                 | 32,484,407   |
| Profit for the period               |   | -             | -                        | -               | -               | -               | -                  | -  | 2,366,553         | 2,366,553  | 16,212                    | 2,382,765    |
| Other comprehensive income          | 33(d)(e)  | -             | -                        | -               | -               | -               | 8,716              | 12,895   | -                 | 21,611     | 1,776                     | 23,387       |
| Total comprehensive income          |   | -             | -                        | -               | -               | -               | 8,716              | 12,895   | 2,366,553         | 2,388,164  | 17,988                    | 2,406,152    |
| Balance at 30 June 2018 (unaudited) |   | 5,321,932     | 7,825,508                | 3,054,869       | 2,054,756       | 5,520,320       | (15,217)           | (39,719)                                       | 9,979,535         | 33,701,984 | 1,188,575                 | 34,890,559   |

The notes on pages 98 to 229 form part of this interim financial report.



# CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | <b>Six months ended 30 June</b> |              |
|---|---------------------------------|--------------|
|   | <b>2018</b>                     | 2017         |
|   | <b>(unaudited)</b>              | (unaudited)  |
| <b>Cash flows from operating activities</b>   |                                 |              |
| Profit before tax   | <b>3,036,601</b>                | 3,007,725    |
| <i>Adjustments for:</i>   |                                 |              |
| Impairment losses on assets   | <b>696,523</b>                  | 737,106      |
| Depreciation and amortisation   | <b>147,843</b>                  | 122,082      |
| Unwinding of discount   | –                               | (25,994)     |
| Unrealised foreign exchange (gains)/losses  | <b>(167,814)</b>                | 66,109       |
| Net losses from disposal of long term assets  | <b>2</b>                        | –            |
| Net trading (gains)/losses of financial investments<br>at fair value through profit or loss       | <b>(174,951)</b>                | 7,697        |
| Net gains arising from investments  | <b>(1,403,322)</b>              | (33,456)     |
| Share of profits of associates  | <b>(26,331)</b>                 | (18,810)     |
| Interest expense on debt securities issued  | <b>1,742,630</b>                | 1,083,155    |
| Interest income on financial investments  | <b>(4,009,774)</b>              | (4,269,735)  |
|   | <b>(158,593)</b>                | 675,879      |
| <i>Changes in operating assets</i>  |                                 |              |
| Net decrease/(increase) in deposits with central bank   | <b>2,685,373</b>                | (1,238,656)  |
| Net decrease/(increase) in deposits and placements with banks and other<br>financial institutions | <b>7,204,457</b>                | (3,725,299)  |
| Net increase in financial investments at fair value through profit or loss                        | –                               | (1,043,382)  |
| Net increase in financial investments held for trading purpose                                    | <b>(491,997)</b>                | –            |
| Net increase in loans and advances to customers   | <b>(11,305,300)</b>             | (10,851,125) |
| Net increase in financial assets held under resale agreements                                     | <b>(5,735,273)</b>              | (27,828,760) |
| Net increase in finance lease receivables   | <b>(2,581,844)</b>              | (4,216,563)  |
| Net decrease in other operating assets  | <b>208,988</b>                  | 1,760,620    |
|   | <b>(10,015,596)</b>             | (47,143,165) |

The notes on pages 98 to 229 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | <b>Six months ended 30 June</b> |               |
|--|---------------------------------|---------------|
|  | <b>2018</b>                     | 2017          |
|  | <b>(unaudited)</b>              | (unaudited)   |
| <i>Changes in operating liabilities</i>  |                                 |               |
| Net (decrease)/increase in amounts due to central bank   | <b>(550)</b>                    | 1,014,550     |
| Net (decrease)/increase in deposits and placements from banks and other financial institutions | <b>(5,459,568)</b>              | 6,603,886     |
| Net increase/(decrease) in financial assets sold under repurchase agreements                   | <b>5,639,250</b>                | (4,526,815)   |
| Net increase in deposits from customers  | <b>7,705,327</b>                | 28,476,710    |
| Income tax paid  | <b>(1,014,318)</b>              | (1,141,709)   |
| Net increase in other operating liabilities  | <b>261,326</b>                  | 2,905,097     |
|  | <b>7,131,467</b>                | 33,331,719    |
| <b>Net cash flows used in operating activities</b>   | <b>(3,042,722)</b>              | (13,135,567)  |
| <b>Cash flows from investing activities</b>  |                                 |               |
| Proceeds from disposal and redemption of investments   | <b>79,278,323</b>               | 133,768,786   |
| Proceeds from disposal of property and equipment and other assets                              | <b>6,514</b>                    | –             |
| Payments on acquisition of investments   | <b>(79,031,368)</b>             | (133,065,092) |
| Dividends and interest received  | <b>5,216,214</b>                | 3,910,886     |
| Net proceeds from acquisition of a subsidiary 36(b)  | <b>–</b>                        | 68,436        |
| Payments on acquisition of property and equipment and other assets                             | <b>(276,809)</b>                | (202,334)     |
| <b>Net cash flows generated from investing activities</b>                                      | <b>5,192,874</b>                | 4,480,682     |
| <b>Cash flows from financing activities</b>  |                                 |               |
| Proceeds received from debt securities issued  | <b>45,706,861</b>               | 43,521,363    |
| Repayment of debt securities issued  | <b>(46,944,776)</b>             | (28,334,144)  |
| Interest paid on debt securities issued  | <b>(2,243,060)</b>              | (701,445)     |
| Dividends paid   | <b>–</b>                        | (1,165,469)   |

The notes on pages 98 to 229 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note  | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2018<br>(unaudited)      | 2017<br>(unaudited) |
| <b>Net cash flows (used in)/generated from financing activities</b>         |       | <b>(3,480,975)</b>       | 13,320,305          |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                 |       | <b>(1,330,823)</b>       | 4,665,420           |
| <b>Cash and cash equivalents as at 1 January</b>                            |       | <b>19,254,054</b>        | 16,122,799          |
| <b>Effect of foreign exchange rate changes on cash and cash equivalents</b> |       | <b>40,764</b>            | (41,100)            |
| <b>Cash and cash equivalents as at 30 June</b>                              | 36(a) | <b>17,963,995</b>        | 20,747,119          |
| <b>Net cash flows generated from operating activities include:</b>          |       |                          |                     |
| Interest received   |       | <b>5,084,877</b>         | 4,149,384           |
| Interest paid   |       | <b>(4,524,156)</b>       | (3,140,185)         |

The notes on pages 98 to 229 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 1 BACKGROUND INFORMATION

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

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

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

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

For subsidiaries of the Bank, refer to note 20 for more information.

## 2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 2 BASIS OF PREPARATION (CONTINUED)

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

## 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Impacts of the adoption of the revised IFRSs, are as follows:

### **IFRS 15, *Revenue from contracts with customers***

IFRS 15 includes a single model that is applicable to recognising revenue from contracts with customers and two methods of revenue recognition: recognising revenue at a point in time or over a period of time. The model is characterized by the process that conducting a five-step analysis based on the contract, to determine whether the revenue of a transaction can be recognised, the amount of revenue to be recognised, and the timing of revenue recognition.

IFRS 15 has introduced extensive qualitative and quantitative disclosure requirements, which aims to enable users of financial statements to understand the nature, amount, timing and uncertainty of the revenue and cash flows from contracts with customers. Entities can apply the standard with the full retrospective method, or can start to adopt the standard since the date of initial application and adjust the opening balance at that date. The disclosure in the transitional period varies according to different methods adopted by the entities.

The adoption of IFRS 15 has no material effect on the financial position and financial performance of the Group.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### **IFRS 9, *Financial instruments***

IFRS 9 sets out new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. IFRS 9 became effective for annual periods beginning on or after 1 January 2018, which requires the Group to make retrospective adjustments. Exercising the exemption, the Group did not restate information in the comparative period, and included the conversion and adjustment to the initial shareholders' equity on 1 January 2018.

### **Classification and measurement**

IFRS 9 contains three principal classification categories for financial assets: financial assets measured at (1) amortised cost, (2) fair value through profit or loss and (3) fair value through other comprehensive income as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. For financial assets that are eligible to be measured at amortised cost or fair value through other comprehensive income, the Group is still able to irrevocably designate them as financial assets at fair value through profit or loss at their initial recognition. If a debt instrument is classified as fair value through other comprehensive income, then its interest income, impairments, exchange gains and losses, and gains/losses on disposal will be recognised in profit or loss.
- For equity investments, the classification is fair value through profit or loss regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that equity investment as financial assets at fair value through other comprehensive income. If an equity investment is designated as financial assets at fair value through other comprehensive income then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without reclassification to profit or loss.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### Classification and measurement (Continued)

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, Financial Instruments: Recognition and Measurement, except that IFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss).

### Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss ("ECL") model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure ECL as either 12-month ECL or lifetime ECL, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses.

### Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising the hedging ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

### Disclosure

IFRS 9 introduces a large number of new disclosure requirements, particularly the content relating to hedge accounting, credit risk and ECL.

### Transition

IFRS 9 became effective from 1 January 2018. Exercising the exemption, the Group did not restate the comparative figures in prior periods and recognized the differences in the net assets at the beginning of 2018.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### Transition (Continued)

Impacts of adopting the revised accounting standards of financial instruments on the Group as at 1 January 2018 are as follows:

|  | Carrying amount<br>before the<br>amendment | Reclassification | Remeasurement | Carrying<br>amount after<br>the amendment |
|--|--|------------------|---------------|---|
| Deposits with banks and other financial institutions   | 4,723,649                                  | –                | (513)         | 4,723,136                                 |
| Placements with banks and other financial institutions   | 15,297,528                                 | –                | (2,121)       | 15,295,407                                |
| Financial assets purchased under resale agreements   | 4,407,476                                  | –                | (902)         | 4,406,574                                 |
| Interests receivable   | 2,520,119                                  | –                | (425,295)     | 2,094,824                                 |
| Finance lease receivables  | 10,490,994                                 | –                | (18,264)      | 10,472,730                                |
| Loans and advances to customers  | 124,455,942                                | –                | (334,978)     | 124,120,964                               |
| Including:   |  |                  |               |   |
| Less: Transfers out as loans and advances to customers measured at fair value through other comprehensive income | 2,480,770                                  | (2,480,770)      | –             | –   |
| Less: Transfers out as loans and advances to customers measured at amortised cost                                | 121,975,172                                | (121,975,172)    | –             | –   |
| Add: Loans and advances to customers measured at fair value through other comprehensive income                   | –  | 2,480,770        | (7,230)       | 2,473,540                                 |
| Add: Loans and advances to customers measured at amortised cost  | –  | 121,975,172      | (327,748)     | 121,647,424                               |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### Transition (Continued)

|  | Carrying amount<br>before the<br>amendment | Reclassification | Remeasurement | Carrying<br>amount after<br>the amendment |
|--|--|------------------|---------------|---|
| Financial investments  |  |                  |               |   |
| Available-for-sale financial assets  | 35,086,298                                 | (35,086,298)     | –             | –   |
| Including:   |  |                  |               |   |
| Less: Transfers out as financial<br>investments at fair value<br>through profit or loss                | 32,291,943                                 | (32,291,943)     | –             | –   |
| Less: Transfers out as financial<br>investments at fair<br>value through other<br>comprehensive income | 2,794,355                                  | (2,794,355)      | –             | –   |
| Held-to-maturity investments   | 59,267,821                                 | (59,267,821)     | –             | –   |
| Including:   |  |                  |               |   |
| Less: Transfers out as financial<br>investments at fair value<br>through profit or loss                | 5,419,674                                  | (5,419,674)      | –             | –   |
| Less: Transfers out as financial<br>investment measured at<br>amortised cost                           | 53,848,147                                 | (53,848,147)     | –             | –   |
| Loans and receivables  | 116,470,830                                | (116,470,830)    | –             | –   |
| Including:   |  |                  |               |   |
| Less: Transfers out as financial<br>investments at fair value<br>through profit or loss                | 10,164,316                                 | (10,164,316)     | –             | –   |
| Less: Transfers out as financial<br>investments measured at<br>amortised cost                          | 106,306,514                                | (106,306,514)    | –             | –   |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

#### Transition (Continued)

|  | Carrying amount<br>before the<br>amendment | Reclassification | Remeasurement    | Carrying<br>amount after<br>the amendment |
|--|--|------------------|------------------|---|
| Financial investments at fair value through profit or loss             | 11,849,297                                 | 47,875,933       | 265,070          | 59,990,300                                |
| Financial investments at fair value through other comprehensive income | –  | 2,794,355        | –                | 2,794,355                                 |
| Financial investments measured at amortised cost                       | –  | 160,154,661      | (520,650)        | 159,634,011                               |
| Sub-total  | 384,569,954                                | –                | (1,037,653)      | 383,532,301                               |
| Others   | (59,417)                                   | –                | (197,236)        | (256,653)                                 |
| Deferred tax assets  | 1,270,416                                  | –                | 279,931          | 1,550,347                                 |
| <b>Total</b>   | <b>385,780,953</b>                         | <b>–</b>         | <b>(954,958)</b> | <b>384,825,995</b>                        |

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 4 NET INTEREST INCOME

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2018                     | 2017        |
| <b>Interest income arising from</b>                                 |                          |             |
| Deposits with central bank  | <b>265,786</b>           | 231,905     |
| Deposits and placements with banks and other financial institutions | <b>214,405</b>           | 174,307     |
| Loans and advances to customers                                     |                          |             |
| – Corporate loans and advances                                      | <b>2,614,727</b>         | 2,416,946   |
| – Personal loans and advances                                       | <b>1,065,934</b>         | 749,395     |
| – Discounted bills  | <b>77,566</b>            | 4,833       |
| Financial assets held under resale agreements                       | <b>143,024</b>           | 187,653     |
| Financial investments   | <b>4,200,893</b>         | 4,514,378   |
| Finance lease receivables   | <b>338,414</b>           | 257,263     |
| Sub-total   | <b>8,920,749</b>         | 8,536,680   |
| <b>Interest expense arising from</b>                                |                          |             |
| Amounts due to central bank   | <b>(29,000)</b>          | (11,579)    |
| Deposits and placements from banks and other financial institutions | <b>(1,313,583)</b>       | (978,092)   |
| Deposits from customers   | <b>(2,730,884)</b>       | (2,058,860) |
| Financial assets sold under repurchase agreements                   | <b>(283,028)</b>         | (345,400)   |
| Debt securities issued  | <b>(1,742,630)</b>       | (1,083,155) |
| Sub-total   | <b>(6,099,125)</b>       | (4,477,086) |
| <b>Net interest income</b>  | <b>2,821,624</b>         | 4,059,594   |

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 NET INTEREST INCOME (CONTINUED)

(b) Total interest income arising from financial assets that are not at fair value through profit or loss for the period ended 30 June 2018 amounted to RMB8,730 million (Six months ended 30 June 2017: RMB8,292 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period ended 30 June 2018 amounted to RMB6,099 million (Six months ended 30 June 2017: RMB4,477 million).

### 5 NET FEE AND COMMISSION INCOME

|  | Six months ended 30 June |          |
|--|--------------------------|----------|
|  | 2018                     | 2017     |
| <b>Fee and commission income</b>       |                          |          |
| Agency and custody services fees       | <b>652,304</b>           | 568,787  |
| Underwriting and advisory fees         | <b>228,347</b>           | 260,436  |
| Acceptance and guarantee services fees | <b>61,117</b>            | 61,004   |
| Bank card services fees                | <b>46,071</b>            | 36,461   |
| Others                                 | <b>6,152</b>             | 5,419    |
| Sub-total                              | <b>993,991</b>           | 932,107  |
| <b>Fee and commission expense</b>      | <b>(35,415)</b>          | (22,797) |
| <b>Net fee and commission income</b>   | <b>958,576</b>           | 909,310  |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6 NET TRADING LOSSES

|   | Note | Six months ended 30 June |           |
|---|------|--------------------------|-----------|
|   |      | 2018                     | 2017      |
| Net gains/(losses) from debt securities and funds | (a)  | <b>158,723</b>           | (108,616) |
| Net foreign exchange losses                       | (b)  | <b>(316,614)</b>         | (54,683)  |
| Net gains from derivative financial instruments   |      | <b>86,837</b>            | –         |
| <b>Total</b>                                      |      | <b>(71,054)</b>          | (163,299) |

- (a) Net losses from debt securities and funds include losses arising from the buying and selling of, net gains arising from and changes in the fair value of financial assets and liabilities held for trading.
- (b) Net foreign exchange losses mainly included losses from purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

### 7 NET GAINS ARISING FROM INVESTMENTS

|                                       | Six months ended 30 June |        |
|---------------------------------------|--------------------------|--------|
|                                       | 2018                     | 2017   |
| Net gains from debt securities        | <b>9,425</b>             | 8,515  |
| Net gains from other debt instruments | <b>1,406,997</b>         | 24,941 |
| <b>Total</b>                          | <b>1,416,422</b>         | 33,456 |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 8 OTHER OPERATING INCOME

|                   | Six months ended 30 June |               |
|-------------------|--------------------------|---------------|
|                   | 2018                     | 2017          |
| Rental income     | 6,067                    | 8,284         |
| Government grants | 971                      | 2,715         |
| Others            | 3,772                    | 9,767         |
| <b>Total</b>      | <b>10,810</b>            | <b>20,766</b> |

### 9 OPERATING EXPENSES

|   | Six months ended 30 June |                  |
|---|--------------------------|------------------|
|   | 2018                     | 2017             |
| Staff costs                               |                          |                  |
| – Salaries, bonuses and allowance         | 564,625                  | 448,878          |
| – Social insurance and annuity            | 110,743                  | 89,795           |
| – Supplementary retirement benefits       | 3,485                    | 461              |
| – Staff welfare                           | 74,580                   | 45,177           |
| – Housing allowance                       | 33,067                   | 26,696           |
| – Others                                  | 16,225                   | 13,056           |
| <b>Sub-total</b>                          | <b>802,725</b>           | <b>624,063</b>   |
| Depreciation and amortisation             | 147,843                  | 122,082          |
| Rental and property management expenses   | 97,448                   | 84,964           |
| Office expenses                           | 27,132                   | 32,359           |
| Tax and surcharges                        | 43,398                   | 35,255           |
| Other general and administrative expenses | 311,039                  | 235,083          |
| <b>Total</b>                              | <b>1,429,585</b>         | <b>1,133,806</b> |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 10 IMPAIRMENT LOSSES ON ASSETS

|  | Six months ended 30 June |          |
|--|--------------------------|----------|
|  | 2018                     | 2017     |
| Loans and advances to customers  | <b>503,387</b>           | 640,145  |
| Financial investments classified as loans and receivables              | –                        | 20,000   |
| Financial investments measured at amortised cost                       | <b>140,647</b>           | –        |
| Financial investments at fair value through other comprehensive income | <b>(564)</b>             | –        |
| Finance lease receivables  | <b>74,772</b>            | 89,947   |
| Financial assets held under resale agreements                          | <b>769</b>               | –        |
| Placements with banks and other financial institutions                 | <b>(195)</b>             | –        |
| Deposits with banks and other financial institutions                   | <b>(371)</b>             | –        |
| Off-balance sheet credit commitments                                   | <b>(21,922)</b>          | 3,479    |
| Others   | –                        | (16,465) |
| <b>Total</b>   | <b>696,523</b>           | 737,106  |

### 11 INCOME TAX EXPENSE

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

|                            | Note | Six months ended 30 June |          |
|----------------------------|------|--------------------------|----------|
|                            |      | 2018                     | 2017     |
| Current tax                |      | <b>537,303</b>           | 719,661  |
| Deferred tax               | 22   | <b>172,480</b>           | (38,605) |
| Adjustment for prior years |      | <b>(55,947)</b>          | 1,670    |
| <b>Total</b>               |      | <b>653,836</b>           | 682,726  |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 11 INCOME TAX EXPENSE (CONTINUED)

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

|   | Note | Six months ended 30 June |                |
|---|------|--------------------------|----------------|
|   |      | 2018                     | 2017           |
| Profit before tax                           |      | 3,036,601                | 3,007,725      |
| Statutory tax rate                          |      | 25%                      | 25%            |
| Income tax calculated at statutory tax rate |      | 759,150                  | 751,931        |
| Non-deductible expenses                     |      | 1,452                    | 2,248          |
| Non-taxable income                          | (1)  | (54,549)                 | (73,123)       |
| Tax effect of unrecognised tax losses       |      | 3,730                    | –              |
| Adjustment for prior period                 |      | (55,947)                 | 1,670          |
| <b>Income tax</b>                           |      | <b>653,836</b>           | <b>682,726</b> |

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

### 12 BASIC AND DILUTED EARNINGS PER SHARE

|  | Note | Six months ended 30 June |           |
|--|------|--------------------------|-----------|
|  |      | 2018                     | 2017      |
| Net profit attributable to equity shareholders of the Bank                                       |      | 2,366,553                | 2,271,396 |
| Weighted average number of ordinary shares<br>(in thousand shares)                               | (a)  | 5,321,932                | 5,321,932 |
| Basic and diluted earnings per share attributable to equity<br>shareholders of the Bank (in RMB) |      | 0.44                     | 0.43      |

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



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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 12 BASIC AND DILUTED EARNINGS PER SHARE (CONTINUED)

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

|  | Six months ended 30 June |           |
|--|--------------------------|-----------|
|  | 2018                     | 2017      |
| Number of ordinary shares as at 1 January              | 5,321,932                | 5,321,932 |
| Increase in weighted average number of ordinary shares | –                        | –         |
| Weighted average number of ordinary shares             | 5,321,932                | 5,321,932 |

### 13 CASH AND DEPOSITS WITH CENTRAL BANK

|                              | Note | 30 June<br>2018 | 31 December<br>2017 |
|------------------------------|------|-----------------|---------------------|
| Cash on hand                 |      | 924,071         | 768,348             |
| Deposits with central bank   |      |                 |                     |
| – Statutory deposit reserves | (a)  | 29,849,518      | 32,333,148          |
| – Surplus deposit reserves   | (b)  | 14,870,917      | 12,122,850          |
| – Fiscal deposits            |      | 209,043         | 410,786             |
| Sub-total                    |      | 44,929,478      | 44,866,784          |
| Total                        |      | 45,853,549      | 45,635,132          |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

- (a) The Bank and its subsidiaries place statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the relevant period, the statutory deposit reserve ratios applicable to the Bank were as follows:

|   | 30 June<br>2018 | 31 December<br>2017 |
|---|-----------------|---------------------|
| Reserve ratio for RMB deposits              | 12.5%           | 13.5%               |
| Reserve ratio for foreign currency deposits | 5.0%            | 5.0%                |

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

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 14 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

### Analysed by type and location of counterparty

|                                       | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------------|-------------------------|---------------------|
| Deposits in mainland China            |                         |                     |
| – Banks                               | <b>2,264,999</b>        | 1,253,477           |
| – Other financial institutions        | <b>1,969</b>            | 3,955               |
| Sub-total                             | <b>2,266,968</b>        | 1,257,432           |
| Deposits outside mainland China       |                         |                     |
| – Banks                               | <b>217,514</b>          | 3,466,217           |
| Sub-total                             | <b>217,514</b>          | 3,466,217           |
| Total                                 | <b>2,484,482</b>        | 4,723,649           |
| Less: provision for impairment losses | <b>(142)</b>            | –                   |
| Total                                 | <b>2,484,340</b>        | 4,723,649           |

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                       | 30 June<br>2018 | 31 December<br>2017 |
|---------------------------------------|-----------------|---------------------|
| Placements in mainland China          |                 |                     |
| – Banks                               | 6,054,940       | 15,290,028          |
| Placements outside mainland China     |                 |                     |
| – Banks                               | 83,449          | 7,500               |
| Total                                 | 6,138,389       | 15,297,528          |
| Less: provision for impairment losses | (1,926)         | –                   |
| Total carrying amount                 | 6,136,463       | 15,297,528          |

## 16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

|                                       | 30 June<br>2018 | 31 December<br>2017 |
|---------------------------------------|-----------------|---------------------|
| In mainland China                     |                 |                     |
| – Banks                               | 2,592,999       | 1,355,000           |
| – Other financial institutions        | 7,549,750       | 3,052,476           |
| Total                                 | 10,142,749      | 4,407,476           |
| Less: provision for impairment losses | (1,671)         | –                   |
| Total                                 | 10,141,078      | 4,407,476           |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

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

|                                       | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------------|-------------------------|---------------------|
| Debt securities                       | <b>8,139,250</b>        | 4,407,476           |
| Bills                                 | <b>2,003,499</b>        | –                   |
| Total                                 | <b>10,142,749</b>       | 4,407,476           |
| Less: provision for impairment losses | <b>(1,671)</b>          | –                   |
| Total                                 | <b>10,141,078</b>       | 4,407,476           |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**17 LOANS AND ADVANCES TO CUSTOMERS**

**(a) Analysed by nature**

|  | <b>30 June<br/>2018</b> |
|--|-------------------------|
| Loans and advances to customers measured at amortised cost   |                         |
| Corporate loans and advances   |                         |
| – General loans  | <b>95,240,162</b>       |
| Sub-total  | <b>95,240,162</b>       |
| Personal loans and advances  |                         |
| – Personal business loans  | <b>14,866,184</b>       |
| – Residential mortgage   | <b>12,850,684</b>       |
| – Personal consumption loans   | <b>8,382,417</b>        |
| – Auto loans   | <b>1,237,823</b>        |
| – Credit card  | <b>1,406,732</b>        |
| Sub-total  | <b>38,743,840</b>       |
| Total amount of loans and advances to customers measured at amortised cost                             | <b>133,984,002</b>      |
| Loans and advances to customers measured at fair value through<br>other comprehensive income           |                         |
| – Discounted bills/Forfeiting  | <b>5,206,457</b>        |
| Gross loans and advances to customers  | <b>139,190,459</b>      |
| Less: Provision for impairment losses on loans and advances to customers<br>measured at amortised cost | <b>(4,364,401)</b>      |
| Net loans and advances to customers  | <b>134,826,058</b>      |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

|                                       | 31 December<br>2017 |
|---------------------------------------|---------------------|
| Corporate loans and advances          | 92,248,887          |
| Personal loans and advances           |                     |
| – Personal business loans             | 12,851,941          |
| – Residential mortgage                | 10,240,718          |
| – Personal consumption loans          | 8,827,773           |
| – Auto loans                          | 1,065,127           |
| – Credit card                         | 1,127,711           |
| – Others                              | 3                   |
| Sub-total                             | 34,113,273          |
| Discounted bills                      | 2,094,318           |
| Gross loans and advances to customers | 128,456,478         |
| Less: Provision for impairment losses |                     |
| – Individually assessed               | (640,455)           |
| – Collectively assessed               | (3,360,081)         |
| Total provision for impairment losses | (4,000,536)         |
| Net loans and advances to customers   | 124,455,942         |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**(b) Analysed by economic sector**

|  | 30 June 2018 |            |   |
|--|--------------|------------|---|
|  | Amount       | Percentage | Loans and advances secured by collaterals |
| Wholesale and retail   | 30,323,016   | 21.79%     | 16,199,427                                |
| Manufacturing  | 14,714,374   | 10.57%     | 3,071,893                                 |
| Real estate  | 13,388,301   | 9.62%      | 8,935,756                                 |
| Construction   | 12,031,151   | 8.64%      | 6,443,796                                 |
| Leasing and commercial services                                    | 7,395,748    | 5.31%      | 3,902,208                                 |
| Water, environment and public facility management                  | 6,743,351    | 4.84%      | 3,369,450                                 |
| Transportation, storage and postal services                        | 2,886,732    | 2.07%      | 706,415                                   |
| Agriculture, forestry, animal husbandry and fishery                | 2,165,784    | 1.56%      | 848,507                                   |
| Production and supply of electric and heating power, gas and water | 1,766,112    | 1.27%      | 86,760                                    |
| Accommodation and catering   | 1,099,724    | 0.79%      | 875,277                                   |
| Culture, sports and entertainment                                  | 276,540      | 0.20%      | 188,760                                   |
| Mining   | 134,000      | 0.10%      | 80,000                                    |
| Others   | 4,039,634    | 2.90%      | 1,025,739                                 |
| Sub-total of corporate loans and advances                          | 96,964,467   | 69.66%     | 45,733,988                                |
| Personal loans and advances  | 38,743,840   | 27.84%     | 27,443,749                                |
| Discounted bills   | 3,482,152    | 2.50%      | 3,256,753                                 |
| Gross loans and advances to customers                              | 139,190,459  | 100.00%    | 76,434,490                                |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

|  | 31 December 2017 |            |   |
|--|------------------|------------|---|
|  | Amount           | Percentage | Loans and advances secured by collaterals |
| Wholesale and retail   | 32,436,168       | 25.25%     | 18,549,333                                |
| Manufacturing  | 13,678,950       | 10.65%     | 3,367,390                                 |
| Construction   | 11,951,304       | 9.30%      | 6,662,124                                 |
| Real estate  | 9,991,443        | 7.78%      | 8,153,900                                 |
| Leasing and commercial services                                    | 7,641,811        | 5.96%      | 4,526,957                                 |
| Water, environment and public facility management                  | 3,676,164        | 2.86%      | 2,951,976                                 |
| Transportation, storage and postal services                        | 2,385,529        | 1.86%      | 432,572                                   |
| Agriculture, forestry, animal husbandry and fishery                | 2,292,170        | 1.78%      | 1,075,030                                 |
| Production and supply of electric and heating power, gas and water | 1,764,514        | 1.37%      | 71,930                                    |
| Accommodation and catering   | 1,075,419        | 0.84%      | 806,320                                   |
| Culture, sports and entertainment                                  | 382,080          | 0.30%      | 299,060                                   |
| Public administration, public security and social organisations    | 327,500          | 0.25%      | 327,500                                   |
| Mining   | 223,274          | 0.17%      | 97,300                                    |
| Others   | 4,422,561        | 3.44%      | 635,060                                   |
| Sub-total of corporate loans and advances                          | 92,248,887       | 71.81%     | 47,956,452                                |
| Personal loans and advances  | 34,113,273       | 26.56%     | 24,015,679                                |
| Discounted bills   | 2,094,318        | 1.63%      | 1,890,255                                 |
| Gross loans and advances to customers                              | 128,456,478      | 100.00%    | 73,862,386                                |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

|   | <b>30 June<br/>2018</b> |
|---|-------------------------|
| Unsecured loans   | <b>19,500,700</b>       |
| Guaranteed loans  | <b>43,255,269</b>       |
| Collateral loans  |                         |
| – Loans secured by tangible assets other than monetary assets                                       | <b>47,245,608</b>       |
| – Loans secured by intangible assets or monetary assets   | <b>29,188,882</b>       |
| Gross loans and advances to customers   | <b>139,190,459</b>      |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost | <b>(4,364,401)</b>      |
| Net loans and advances to customers   | <b>134,826,058</b>      |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

|   | 31 December<br>2017 |
|---|---------------------|
| Unsecured loans   | 15,453,740          |
| Guaranteed loans  | 39,140,352          |
| Loans secured by tangible assets other than monetary assets | 43,574,227          |
| Loans secured by intangible assets or monetary assets       | 30,288,159          |
| Gross loans and advances to customers                       | 128,456,478         |
| Less: Provision for impairment losses                       |                     |
| – Individually assessed                                     | (640,455)           |
| – Collectively assessed                                     | (3,360,081)         |
| Total provision for impairment losses                       | (4,000,536)         |
| Net loans and advances to customers                         | 124,455,942         |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

|   | 30 June 2018                                     |  |   |                                     | Total            |
|---|--|--|---|-------------------------------------|------------------|
|   | Overdue<br>within three<br>months<br>(inclusive) | Overdue<br>more than<br>three months<br>to one year<br>(inclusive) | Overdue<br>more than<br>one year<br>to three years<br>(inclusive) | Overdue<br>more than<br>three years |                  |
| Unsecured loans   | 18,305   | 12,343   | 8,508   | –                                   | 39,156           |
| Guaranteed loans  | 1,496,470  | 1,732,790  | 1,185,649   | 86,376                              | 4,501,285        |
| Loans secured by<br>tangible assets other<br>than monetary assets | 958,643  | 318,433  | 368,090   | 62,244                              | 1,707,410        |
| Loans secured by<br>intangible assets or<br>monetary assets       | 168,231  | 76,833   | 20,023  | 3,500                               | 268,587          |
| <b>Total</b>  | <b>2,641,649</b>                                 | <b>2,140,399</b>   | <b>1,582,270</b>  | <b>152,120</b>                      | <b>6,516,438</b> |
| As a percentage of gross<br>loans and advances to<br>customers    | <b>1.90%</b>                                     | <b>1.54%</b>   | <b>1.14%</b>  | <b>0.11%</b>                        | <b>4.68%</b>     |

|   | 31 December 2017                                 |  |   |                                     | Total            |
|---|--|--|---|-------------------------------------|------------------|
|   | Overdue<br>within three<br>months<br>(inclusive) | Overdue<br>more than<br>three months<br>to one year<br>(inclusive) | Overdue<br>more than<br>one year<br>to three years<br>(inclusive) | Overdue<br>more than<br>three years |                  |
| Unsecured loans   | 17,010   | 9,981  | 1,951   | –                                   | 28,942           |
| Guaranteed loans  | 2,433,907  | 1,828,957  | 823,073   | –                                   | 5,085,937        |
| Loans secured by<br>tangible assets other<br>than monetary assets | 1,062,519  | 330,350  | 214,624   | 55,955                              | 1,663,448        |
| Loans secured by<br>intangible assets or<br>monetary assets       | 68,335   | 7,084  | 20,000  | 3,500                               | 98,919           |
| <b>Total</b>  | <b>3,581,771</b>                                 | <b>2,176,372</b>   | <b>1,059,648</b>  | <b>59,455</b>                       | <b>6,877,246</b> |
| As a percentage of<br>gross loans and<br>advances to<br>customers | <b>2.79%</b>                                     | <b>1.69%</b>   | <b>0.82%</b>  | <b>0.05%</b>                        | <b>5.35%</b>     |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

|  | 30 June 2018   |   |   | Total       |
|--|--|---|---|-------------|
|  | Loans and advances that are assessed for 12-month ECL                      | Not credit-impaired loans and advances that are assessed for lifetime ECL | Credit-impaired loans and advances that are assessed for lifetime ECL |             |
| Total loans and advances to customers measured at amortised cost   | 126,845,574  | 3,217,359   | 3,921,069   | 133,984,002 |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost          | (1,491,318)  | (606,948)   | (2,266,135)   | (4,364,401) |
| Carrying amount of loans and advances to customers measured at amortised cost                                | 125,354,256  | 2,610,411   | 1,654,934   | 129,619,601 |
| Carrying amount of loans and advances to customers measured at fair value through other comprehensive income | 5,206,457  | –   | –   | 5,206,457   |
| Total carrying amount of loans and advances to customers   | 130,560,713  | 2,610,411   | 1,654,934   | 134,826,058 |
|  | 31 December 2017   |   |   |             |
|  | Loans and advances for which loans and provision are collectively assessed | Impaired loans and advances   |   | Total       |
|  |  | For which provision are collectively assessed                             | For which provision are individually assessed                         |             |
| Gross loans and advances to customers  | 126,530,792  | 308,013   | 1,617,673   | 128,456,478 |
| Less: Provision for impairment losses  | (3,219,578)  | (140,503)   | (640,455)   | (4,000,536) |
| Net loans and advances to customers  | 123,311,214  | 167,510   | 977,218   | 124,455,942 |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

##### (i) *Movements of provision for impairment losses on loans and advances to customers measured at amortised cost:*

|  | 30 June 2018  |                                     |                                 | Provision<br>for impairment<br>losses |
|--|---------------|-------------------------------------|---------------------------------|---------------------------------------|
|  | 12-months ECL | Lifetime ECL not<br>credit-impaired | Lifetime ECL<br>credit-impaired |                                       |
| 31 December 2017                           |               |                                     |                                 | 4,000,536                             |
| Changes in accounting policies             |               |                                     |                                 | 327,748                               |
| 1 January 2018                             |               |                                     |                                 | 4,328,284                             |
| 1 January 2018                             | 1,534,700     | 656,690                             | 2,136,894                       | 4,328,284                             |
| Transferred:                               |               |                                     |                                 |                                       |
| – to 12-months ECL                         | 3,000         | (3,000)                             | –                               | –                                     |
| – to lifetime ECL not credit-impaired      | (37,251)      | 42,974                              | (5,723)                         | –                                     |
| – to lifetime ECL credit-impaired          | (13,768)      | (179,899)                           | 193,667                         | –                                     |
| Charge for the period                      | 4,637         | 90,183                              | 406,528                         | 501,348                               |
| Write-offs                                 | –             | –                                   | (483,516)                       | (483,516)                             |
| Recoveries of loans previously written off | –             | –                                   | 18,285                          | 18,285                                |
| 30 June 2018                               | 1,491,318     | 606,948                             | 2,266,135                       | 4,364,401                             |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

##### (i) *Movements of provision for impairment losses on loans and advances to customers measured at amortised cost: (Continued)*

|                             | Year ended 31 December 2017  |  |                                       | Total       |
|-----------------------------|--|--|---------------------------------------|-------------|
|                             | Provision for<br>loans and<br>advances which<br>are collectively<br>assessed | Provision for impaired<br>loans and advances |                                       |             |
|                             |  | Which are<br>collectively<br>assessed        | Which are<br>individually<br>assessed |             |
| As at 1 January             | 2,821,668  | 100,701                                      | 536,463                               | 3,458,832   |
| Charge for the year         | 383,866  | 533,915                                      | 909,967                               | 1,827,748   |
| Release for the year        | –  | –  | (83,474)                              | (83,474)    |
| Recoveries                  | –  | 21,320                                       | 77,160                                | 98,480      |
| Write-offs                  | –  | (522,220)                                    | (750,538)                             | (1,272,758) |
| Unwinding of discount       | –  | –  | (55,551)                              | (55,551)    |
| Acquisition of subsidiaries | 14,044   | 6,787  | 6,428                                 | 27,259      |
| As at 31 December           | 3,219,578  | 140,503                                      | 640,455                               | 4,000,536   |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

(ii) *Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:*

|                       | 30 June 2018     |   |                                     | Total |
|-----------------------|------------------|---|-------------------------------------|-------|
|                       | 12-months<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime<br>ECL credit-<br>impaired |       |
| 1 January 2018        | 4,711            | –                                       | –                                   | 4,711 |
| Charge for the period | 2,039            | –                                       | –                                   | 2,039 |
| 30 June 2018          | 6,750            | –                                       | –                                   | 6,750 |

Provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are recognized in other comprehensive income, while the impairment losses are recognized in profit or loss. Besides, the carrying amount of the financial assets presented in the balance sheet are not reduced.

### 18 FINANCIAL INVESTMENTS

|  | Note | 30 June<br>2018    | 31 December<br>2017 |
|--|------|--------------------|---------------------|
| Financial investments at fair value through profit or loss             | (a)  | <b>56,948,805</b>  | 11,849,297          |
| Financial investments at fair value through other comprehensive income | (b)  | <b>1,398,383</b>   | –                   |
| Financial investments measured at amortised cost                       | (c)  | <b>164,836,945</b> | –                   |
| Available-for-sale financial assets                                    | (d)  | –                  | 35,086,298          |
| Held-to-maturity investments   | (e)  | –                  | 59,267,821          |
| Loans and receivables  | (f)  | –                  | 116,470,830         |
| Total  |      | <b>223,184,133</b> | 222,674,246         |



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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS (CONTINUED)

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

|   | Note | 30 June<br>2018   | 31 December<br>2017 |
|---|------|-------------------|---------------------|
| Debt securities   |      |                   |                     |
| – Debt securities held for trading purpose  | (1)  | 9,225,390         | 2,151,565           |
| Investment funds and other investments  |      |                   |                     |
| – Investment funds held for trading purpose                                       |      | 3,236,196         | 3,755,820           |
| – Investment management products designated at fair value through profit or loss  |      | –                 | 5,941,912           |
| – Other financial investments at fair value through profit or loss (under IFRS 9) | (2)  | 44,487,219        | –                   |
| <b>Total</b>  |      | <b>56,948,805</b> | <b>11,849,297</b>   |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS (CONTINUED)

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

##### (1) Debt securities held for trading purpose

|  | Note | 30 June<br>2018  | 31 December<br>2017 |
|--|------|------------------|---------------------|
| Mainland China                           |      |                  |                     |
| – Government                             |      | 3,341,594        | 734,722             |
| – Policy banks                           |      | 4,387,411        | 1,062,048           |
| – Banks and other financial institutions |      | 1,001,666        | 29,439              |
| – Corporate                              |      | 494,719          | 325,356             |
| <b>Total</b>                             |      | <b>9,225,390</b> | 2,151,565           |
| Debt securities analysed into            |      |                  |                     |
| – Listed outside Hong Kong               |      | 2,812,412        | 1,060,078           |
| – Unlisted                               |      | 6,412,978        | 1,091,487           |
| <b>Total</b>                             | (i)  | <b>9,225,390</b> | 2,151,565           |

- (i) As at the end of the reporting period, certain financial assets held for trading purpose was pledged for repurchase agreements (Note 41(f)). No other investments was subject to material restrictions on the realization.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (CONTINUED)

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

#### (2) Other financial investments at fair value through profit or loss (under IFRS 9)

|  | 30 June<br>2018 |
|--|-----------------|
| Other financial investments at fair value through profit<br>or loss (under IFRS 9) |                 |
| – Investment management products managed by securities companies                   | 33,191,131      |
| – Investment management products under trust scheme                                | 6,818,701       |
| – Wealth management products   | 119,000         |
| – Others   | 4,358,387       |
| Total  | 44,487,219      |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**18 FINANCIAL INVESTMENTS (CONTINUED)**

**(b) Financial investments at fair value through other comprehensive income**

|  | <b>30 June<br/>2018<br/>The Group</b> |
|--|---------------------------------------|
| Debt instruments                         |                                       |
| – Government                             | <b>585,179</b>                        |
| – Bank and other financial institutions  | <b>494,858</b>                        |
| – Corporate                              | <b>309,946</b>                        |
| Sub-total                                | <b>1,389,983</b>                      |
| Equity instruments                       | <b>8,400</b>                          |
| Total                                    | <b>1,398,383</b>                      |
| Debt instrument investment by category   |                                       |
| – Listed outside Hong Kong               | <b>585,179</b>                        |
| – Unlisted                               | <b>804,804</b>                        |
|  | <b>1,389,983</b>                      |
| Equity instrument investment by category |                                       |
| – Listed outside Hong Kong               | –                                     |
| – Unlisted                               | <b>8,400</b>                          |
|  | <b>8,400</b>                          |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (CONTINUED)

### (b) Financial investments at fair value through other comprehensive income (Continued)

*Movements of provision for impairment of financial investments measured at fair value through other comprehensive income during the period:*

|   | 12-months<br>ECL | Lifetime ECL not<br>credit-impaired | Lifetime ECL<br>credit-impaired | Total |
|---|------------------|-------------------------------------|---------------------------------|-------|
| Balance at the beginning<br>of the period | 832              | –                                   | –                               | 832   |
| Reversals during the period               | (564)            | –                                   | –                               | (564) |
| Balance at the end of the period          | 268              | –                                   | –                               | 268   |

Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses/gains from impairment are included in profit or loss. Besides, the book value of the financial assets presented in the balance sheet are not reduced.

### (c) Financial investments measured at amortised cost

|  | Note | 30 June<br>2018 |
|--|------|-----------------|
| Debt securities  | (1)  | 55,792,533      |
| Investment management products under the trust scheme          |      | 64,693,699      |
| Investment management products managed by securities companies |      | 28,111,309      |
| Other beneficial right transaction plans                       |      | 14,062,385      |
| Others   |      | 3,478,329       |
| Sub-total  |      | 166,138,255     |
| Less: Provision for impairment losses                          | (2)  | (1,301,310)     |
| Total  |      | 164,836,945     |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (CONTINUED)

### (c) Financial investments measured at amortised cost (Continued)

(1) Debt securities:

|  | 30 June<br>2018   |
|--|-------------------|
| Debt securities                          |                   |
| – Government                             | 18,313,774        |
| – Policy banks                           | 25,198,331        |
| – Banks and other financial institutions | 3,817,581         |
| – Corporate                              | 8,462,847         |
| <b>Total</b>                             | <b>55,792,533</b> |
| Debt securities analysed into:           |                   |
| – Listed outside Hong Kong               | 19,947,168        |
| – Unlisted                               | 35,845,365        |
| <b>Total</b>                             | <b>55,792,533</b> |

(2) Movements of provision for impairment of financial investments measured at amortised cost during the period:

|  | 12-months<br>ECL | Lifetime ECL not<br>credit-impaired | Lifetime ECL<br>credit-impaired | Total            |
|--|------------------|-------------------------------------|---------------------------------|------------------|
| Balance at the beginning of<br>the period  | 763,134          | 335,562                             | 61,967                          | 1,160,663        |
| Transferred:                               |                  |                                     |                                 |                  |
| – to 12-months ECL                         | 111,251          | (111,251)                           | –                               | –                |
| – to lifetime ECL not credit-<br>impaired  | –                | –                                   | –                               | –                |
| – to lifetime ECL credit-impaired          | –                | (224,311)                           | 224,311                         | –                |
| (Reversals)/additions during the<br>period | (87,878)         | –                                   | 228,525                         | 140,647          |
| <b>Balance at the end of the period</b>    | <b>786,507</b>   | <b>–</b>                            | <b>514,803</b>                  | <b>1,301,310</b> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (CONTINUED)

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

|  | Note | 31 December<br>2017 |
|--|------|---------------------|
| Debt securities at fair value            |      |                     |
| – Banks and other financial institutions |      | 2,582,533           |
| – Corporate                              |      | 217,298             |
| Sub-total                                | (1)  | 2,799,831           |
| Other debt investment                    |      |                     |
| – Unlisted                               | (2)  | 32,278,067          |
| Equity investment at cost                |      |                     |
| – Unlisted                               | (3)  | 8,400               |
| <b>Total</b>                             |      | <b>35,086,298</b>   |

(1) All of debt securities are unlisted.

(2) Other unlisted debt investment mainly includes wealth management products issued by other banks, investment management products under trust scheme, investment management products issued by securities companies, etc.

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS (CONTINUED)

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

|  | Note | 31 December<br>2017 |
|--|------|---------------------|
| <hr/>                                    |      |                     |
| Debt securities                          |      |                     |
| – Government                             |      | 19,442,671          |
| – Policy banks                           |      | 29,191,123          |
| – Banks and other financial institutions |      | 3,671,284           |
| – Corporate                              |      | 6,962,743           |
| <hr/>                                    |      |                     |
| Total                                    |      | 59,267,821          |
| <hr/>                                    |      |                     |
| Debt securities analysed into:           |      |                     |
| – Listed outside Hong Kong               |      | 22,274,859          |
| – Unlisted                               |      | 36,992,962          |
| <hr/>                                    |      |                     |
| Total                                    | (1)  | 59,267,821          |
| <hr/>                                    |      |                     |

(1) As at 31 December 2017, certain held-to-maturity investments was pledged for repurchase agreements (Note 41(f)). No other investments were subject to material restrictions on the realization.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (CONTINUED)

### (f) Loans and receivables

|  | <b>31 December<br/>2017</b> |
|--|-----------------------------|
| Investment management products under trust scheme              | 68,114,620                  |
| Investment management products managed by securities companies | 31,714,643                  |
| Factoring and finance lease beneficial interest plan           | 14,484,280                  |
| Others   | 2,797,300                   |
| Sub-total  | 117,110,843                 |
| Less: Provision for impairment losses                          |                             |
| – Individually assessed  | (81,561)                    |
| – Collectively assessed  | (558,452)                   |
| Total provision for impairment losses                          | (640,013)                   |
| Total  | 116,470,830                 |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 FINANCE LEASE RECEIVABLES

|  | 30 June<br>2018 | 31 December<br>2017 |
|--|-----------------|---------------------|
| Minimum finance lease receivables          | 15,092,975      | 11,877,206          |
| Less: Unearned finance lease income        | (1,500,698)     | (1,226,451)         |
| Present value of finance lease receivables | 13,592,277      | 10,650,755          |
| Less: Provision for impairment losses      | (258,253)       | (159,761)           |
| Total                                      | 13,334,024      | 10,490,994          |

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

|                    | 30 June 2018                            |                                     |   | 31 December 2017                        |                                     |   |
|--------------------|---|-------------------------------------|---|---|-------------------------------------|---|
|                    | Minimum<br>finance lease<br>receivables | Unearned<br>finance lease<br>income | Present value<br>of finance<br>lease<br>receivables | Minimum<br>finance lease<br>receivables | Unearned<br>finance lease<br>income | Present value<br>of finance<br>lease<br>receivables |
| Less than 1 year   | 4,989,735                               | (701,966)                           | 4,287,769   | 3,573,591                               | (532,263)                           | 3,041,328   |
| 1 year to 2 years  | 4,844,594                               | (488,457)                           | 4,356,137   | 3,184,374                               | (366,442)                           | 2,817,932   |
| 2 years to 3 years | 3,712,554                               | (227,847)                           | 3,484,707   | 2,807,206                               | (218,393)                           | 2,588,813   |
| 3 years to 5 years | 1,518,538                               | (76,905)                            | 1,441,633   | 2,280,440                               | (102,727)                           | 2,177,713   |
| More than 5 years  | 27,554                                  | (5,523)                             | 22,031  | 31,595                                  | (6,626)                             | 24,969  |
|                    | 15,092,975                              | (1,500,698)                         | 13,592,277  | 11,877,206                              | (1,226,451)                         | 10,650,755  |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 19 FINANCE LEASE RECEIVABLES (CONTINUED)

### (2) Movements of provision for impairment losses:

|                             | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|-----------------------------|-------------------------|---------------------|
| As at 1 January             | <b>159,761</b>          | 57,789              |
| Change in accounting policy | <b>18,264</b>           | –                   |
| Charge for the period/year  | <b>74,772</b>           | 85,028              |
| Transfer from other assets  | <b>5,456</b>            | 16,944              |
| As at 30 June/31 December   | <b>258,253</b>          | 159,761             |

As at 31 December 2017, provisions for impairment losses was collectively assessed.

As at 30 June 2018, finance lease receivables were not credit impaired, provisions for impairment losses was assessed for 12-month ECL.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES

### (a) Investment in subsidiaries

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

| Name  | Percentage of equity interest |                    | Voting rights  | Paid-in capital | Amount invested by the Bank | Place of incorporation registration | Principal activities |
|---|-------------------------------|--------------------|----------------|-----------------|-----------------------------|-------------------------------------|----------------------|
|   | 30 June 2018 %                | 31 December 2017 % | 30 June 2018 % | 30 June 2018    |                             |                                     |                      |
| Fugou Zhengyin County Bank Co., Ltd.                    | 50.20                         | 50.20              | 50.20          | 60,000          | 30,120                      | China                               | Banking              |
| Xinmi Zhengyin County Bank Co., Ltd. ("Xinmi Zhengyin") | 51.20                         | 51.20              | 51.20          | 125,000         | 74,033                      | China                               | Banking              |
| Henan Jiuding Financial Leasing Co., Ltd.               | 51.00                         | 51.00              | 51.00          | 2,000,000       | 1,020,000                   | China                               | Leasing              |
| Xunxian Zhengyin Country Bank Co., Ltd                  | 51.00                         | 51.00              | 51.00          | 50,000          | 25,500                      | China                               | Banking              |
| Queshan Zhengyin Country Bank Co., Ltd                  | 51.00                         | 51.00              | 51.00          | 50,000          | 25,500                      | China                               | Banking              |

- (1) Fugou Zhengyin County Bank Co., Ltd. was incorporated on 3 December 2015. Henan Jiuding Financial Leasing Co., Ltd. was incorporated on 23 March 2016. Xunxian Zhengyin County Bank Co., Ltd. was incorporated on 6 November 2017. Queshan Zhengyin County Bank Co., Ltd. was incorporated on 14 November 2017. The four subsidiaries have no material non-controlling interest to the Group.
- (2) The Bank acquired 31.50% of Xinmi Zhengyin's equity interest in January 2017 with a cash consideration of RMB34,650 thousands, of which RMB31,185 thousands were paid in 2016. After the transaction, the Bank held 51.50% of Xinmi Zhengyin's equity interest, and Xinmi Zhengyin became a subsidiary of the Bank since 1 January 2017. In December 2017, the Bank and other shareholders invested RMB27,500,000 into Xinmi Zhengyin, and the paid-in capital of Xinmi Zhengyin increased to RMB125,000,000. After the capital injection, the Bank held 51.20% Xinmi Zhengyin's equity interest. The subsidiary has no material non-controlling interest to the Group.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (CONTINUED)

### (b) Interest in associates

|                        | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|------------------------|-------------------------|---------------------|
| Interest in associates | <b>295,242</b>          | 280,191             |
| Total                  | <b>295,242</b>          | 280,191             |

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

| Name  | Note | Percentages of<br>equity/voting rights |                          | Place of<br>incorporation/<br>registration | Business<br>sector |
|---|------|--|--------------------------|--|--------------------|
|   |      | <b>30 June<br/>2018<br/>%</b>          | 31 December<br>2017<br>% |  |                    |
| Zhongmu Zhengyin County<br>Bank Co., Ltd.   | (1)  | <b>18.53</b>                           | 18.53                    | China                                      | Banking            |
| Yanling Zhengyin County Bank<br>Co., Ltd.   |      | <b>30.00</b>                           | 30.00                    | China                                      | Banking            |
| Xinzheng Zhengyin Country<br>Bank Co., Ltd. |      | <b>25.00</b>                           | 25.00                    | China                                      | Banking            |

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

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (CONTINUED)

### (b) Interest in associates (Continued)

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

|   | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---|-------------------------|---------------------|
| Aggregate carrying amount of the individually immaterial associates in the consolidated statements of financial position of the Group | <b>295,242</b>          | 280,191             |
| Aggregate amounts of the Group's share of results of the associates   |                         |                     |
| – Profit from continuing operations   | <b>26,331</b>           | 44,333              |
| – Other comprehensive income  | –                       | –                   |
| – Total comprehensive income  | <b>26,331</b>           | 44,333              |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21 PROPERTY AND EQUIPMENT

|  | Premises  | Electronic<br>equipment | Vehicles | Office<br>equipment<br>and others | Construction<br>in progress | Total     |
|--|-----------|-------------------------|----------|-----------------------------------|-----------------------------|-----------|
| <b>Cost</b>  |           |                         |          |                                   |                             |           |
| As at 1 January 2017                                       | 1,407,600 | 465,734                 | 14,383   | 200,280                           | 136,074                     | 2,224,071 |
| Additions  | 167,425   | 84,344                  | 920      | 39,462                            | 10,950                      | 303,101   |
| Disposals  | –         | (6,434)                 | (2,193)  | (5,010)                           | –                           | (13,637)  |
| As at 31 December 2017                                     | 1,575,025 | 543,644                 | 13,110   | 234,732                           | 147,024                     | 2,513,535 |
| Additions  | 106,383   | 36,699                  | –        | 19,215                            | 998                         | 163,295   |
| Disposals  | –         | –                       | –        | (384)                             | –                           | (384)     |
| As at 30 June 2018   | 1,681,408 | 580,343                 | 13,110   | 253,563                           | 148,022                     | 2,676,446 |
| <b>Accumulated depreciation</b>                            |           |                         |          |                                   |                             |           |
| As at 1 January 2017                                       | (165,345) | (240,314)               | (11,373) | (104,045)                         | –                           | (521,077) |
| Additions  | (44,065)  | (92,186)                | (1,674)  | (50,026)                          | –                           | (187,951) |
| Disposals  | –         | 6,097                   | 2,084    | 4,642                             | –                           | 12,823    |
| As at 31 December 2017                                     | (209,410) | (326,403)               | (10,963) | (149,429)                         | –                           | (696,205) |
| Additions  | (24,431)  | (53,248)                | (338)    | (24,381)                          | –                           | (102,398) |
| Disposals  | –         | –                       | –        | 365                               | –                           | 365       |
| As at 30 June 2018   | (233,841) | (379,651)               | (11,301) | (173,445)                         | –                           | (798,238) |
| <b>Impairment</b>  |           |                         |          |                                   |                             |           |
| As at 1 January 2017/<br>31 December 2017/<br>30 June 2018 | (1,355)   | (1,893)                 | –        | (756)                             | –                           | (4,004)   |
| <b>Net book value</b>                                      |           |                         |          |                                   |                             |           |
| As at 31 December 2017                                     | 1,364,260 | 215,348                 | 2,147    | 84,547                            | 147,024                     | 1,813,326 |
| As at 30 June 2018   | 1,446,212 | 198,799                 | 1,809    | 79,362                            | 148,022                     | 1,874,204 |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 PROPERTY AND EQUIPMENT (CONTINUED)

The carrying amount of premises without title deeds as at 30 June 2018 was RMB125 million (31 December 2017: RMB127 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The Group expected that there would be no significant cost in obtaining the title deeds.

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

|  | 30 June<br>2018  | 31 December<br>2017 |
|--|------------------|---------------------|
| Held in mainland China                   |                  |                     |
| – Medium term leases (10 – 50 years)     | 1,441,641        | 1,359,249           |
| – Short term leases (less than 10 years) | 4,571            | 5,011               |
| <b>Total</b>                             | <b>1,446,212</b> | <b>1,364,260</b>    |

### 22 DEFERRED TAX ASSETS

#### (a) Analysed by nature

|  | 30 June 2018   |  | 31 December 2017                        |                                  |
|--|--|--|---|----------------------------------|
|  | Deductible/<br>(taxable)<br>temporary<br>differences | Deferred<br>income<br>tax assets/<br>(liabilities) | Deductible/<br>temporary<br>differences | Deferred<br>income<br>tax assets |
| Allowance for impairment losses                | 5,809,820  | 1,452,455  | 4,662,721                               | 1,165,680                        |
| Accrued staff costs                            | 179,140  | 44,785   | 201,222                                 | 50,306                           |
| Fair value changes in financial<br>instruments | (751,444)  | (187,861)  | 157,704                                 | 39,426                           |
| Provisions                                     | 234,732  | 58,683   | 59,417                                  | 14,854                           |
| Cumulative tax losses of the<br>subsidiary     | –  | –  | 599                                     | 150                              |
| Others   | 8,108  | 2,027  | –                                       | –                                |
| <b>Net deferred income tax assets</b>          | <b>5,480,356</b>                                     | <b>1,370,089</b>                                   | 5,081,663                               | 1,270,416                        |



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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 DEFERRED TAX ASSETS (CONTINUED)

#### (b) Analysed by movement

|   | At<br>31 December<br>2017 | Changes in<br>accounting<br>policies | At<br>1 January<br>2018 | Recognised<br>in profit<br>or loss | Recognised<br>in other<br>comprehensive<br>income | At<br>30 June<br>2018 |
|---|---------------------------|--------------------------------------|-------------------------|------------------------------------|---|-----------------------|
| Allowance for<br>impairment<br>losses             | 1,165,680                 | 190,566                              | 1,356,246               | 96,209                             | –   | 1,452,455             |
| Accrued staff costs                               | 50,306                    | –                                    | 50,306                  | (1,223)                            | (4,298)   | 44,785                |
| Fair value changes<br>in financial<br>instruments | 39,426                    | 40,056                               | 79,482                  | (264,232)                          | (3,111)   | (187,861)             |
| Provisions  | 14,854                    | 49,309                               | 64,163                  | (5,480)                            | –   | 58,683                |
| Cumulative tax<br>losses of the<br>subsidiary     | 150                       | –                                    | 150                     | (150)                              | –   | –                     |
| Others  | –                         | –                                    | –                       | 2,027                              | –   | 2,027                 |
| Net deferred<br>income tax<br>assets              | 1,270,416                 | 279,931                              | 1,550,347               | (172,849)                          | (7,409)   | 1,370,089             |

|  | At<br>1 January<br>2017 | Recognised<br>in profit or loss | Recognised<br>in other<br>comprehensive<br>income | At<br>31 December<br>2017 |
|--|-------------------------|---------------------------------|---|---------------------------|
| Allowance for impairment losses                | 900,510                 | 265,170                         | –   | 1,165,680                 |
| Accrued staff costs                            | 53,910                  | (3,721)                         | 117   | 50,306                    |
| Fair value changes in financial<br>instruments | (395)                   | 31,319                          | 8,502   | 39,426                    |
| Provisions                                     | 14,260                  | 594                             | –   | 14,854                    |
| Cumulative tax losses of the<br>subsidiary     | 1,373                   | (1,223)                         | –   | 150                       |
| Net deferred income tax assets                 | 969,658                 | 292,139                         | 8,619   | 1,270,416                 |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 OTHER ASSETS

|                                       | Note | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------------|------|-------------------------|---------------------|
| Interest receivables                  | (a)  | <b>2,094,486</b>        | 2,539,516           |
| Prepayments                           |      | <b>965,896</b>          | 1,269,447           |
| Intangible assets                     | (b)  | <b>575,520</b>          | 537,171             |
| Leasehold improvements                |      | <b>117,569</b>          | 107,913             |
| Other receivables                     |      | <b>338,316</b>          | 353,718             |
| Sub-total                             |      | <b>4,091,787</b>        | 4,807,765           |
| Less: allowance for impairment losses |      | <b>(22,322)</b>         | (27,778)            |
| Total                                 |      | <b>4,069,465</b>        | 4,779,987           |

#### (a) Interest receivables

|                                       | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------------|-------------------------|---------------------|
| Interest receivables arising from:    |                         |                     |
| – Investments                         | <b>1,421,199</b>        | 1,893,572           |
| – Loans and advances to customers     | <b>431,308</b>          | 338,886             |
| – Others                              | <b>241,979</b>          | 307,058             |
| Sub-total                             | <b>2,094,486</b>        | 2,539,516           |
| Less: allowance for impairment losses | <b>(19,397)</b>         | (19,397)            |
| Total                                 | <b>2,075,089</b>        | 2,520,119           |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 OTHER ASSETS (CONTINUED)

#### (b) Intangible assets

|                                 | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------|-------------------------|---------------------|
| <b>Cost</b>                     |                         |                     |
| As at 1 January                 | <b>650,340</b>          | 229,521             |
| Additions                       | <b>58,420</b>           | 420,819             |
| As at 30 June/31 December       | <b>708,760</b>          | 650,340             |
| <b>Accumulated amortisation</b> |                         |                     |
| As at 1 January                 | <b>(113,169)</b>        | (82,471)            |
| Additions                       | <b>(20,071)</b>         | (30,698)            |
| As at 30 June/31 December       | <b>(133,240)</b>        | (113,169)           |
| <b>Impairment</b>               |                         |                     |
| As at 1 January                 | <b>(145)</b>            | (145)               |
| As at 30 June/31 December       | <b>(145)</b>            | (145)               |
| <b>Net book value</b>           |                         |                     |
| As at 1 January                 | <b>537,026</b>          | 146,905             |
| As at 30 June/31 December       | <b>575,375</b>          | 537,026             |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 DUE TO CENTRAL BANK

|                     | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------|-------------------------|---------------------|
| Due to central bank | <b>1,599,000</b>        | 1,599,550           |
| <b>Total</b>        | <b>1,599,000</b>        | 1,599,550           |

### 25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|--------------------------------|-------------------------|---------------------|
| In mainland China              |                         |                     |
| – Banks                        | <b>27,455,251</b>       | 28,300,298          |
| – Other financial institutions | <b>322,727</b>          | 634,068             |
| <b>Total</b>                   | <b>27,777,978</b>       | 28,934,366          |

### 26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|                   | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|-------------------|-------------------------|---------------------|
| In mainland China |                         |                     |
| – Banks           | <b>18,045,209</b>       | 22,348,389          |
| <b>Total</b>      | <b>18,045,209</b>       | 22,348,389          |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 27 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative contracts mainly including currency swaps, options and interest rate swaps.

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

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

The notional amount and fair value of unexpired derivative financial instruments held by the Group are set out in the following tables:

|                                | 30 June 2018     |                     |                          |
|--------------------------------|------------------|---------------------|--------------------------|
|                                | Notional amount  | Fair value (assets) | Fair value (liabilities) |
| – Currency swap contracts      | 2,911,304        | 67,385              | (7,779)                  |
| – Currency option contracts    | 6,550,434        | –                   | (36,935)                 |
| – Interest rate swap contracts | 400,000          | –                   | (323)                    |
| <b>Total</b>                   | <b>9,861,738</b> | <b>67,385</b>       | <b>(45,037)</b>          |

|                             | 31 December 2017 |                     |                          |
|-----------------------------|------------------|---------------------|--------------------------|
|                             | Notional amount  | Fair value (assets) | Fair value (liabilities) |
| – Currency swap contracts   | 653,420          | –                   | (11,296)                 |
| – Currency option contracts | 3,201,758        | –                   | (21,014)                 |
| <b>Total</b>                | <b>3,855,178</b> | <b>–</b>            | <b>(32,310)</b>          |

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

**28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

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

|                   | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|-------------------|-------------------------|---------------------|
| In mainland China |                         |                     |
| – PBOC            | <b>3,840,000</b>        | 8,480,000           |
| – Banks           | <b>15,884,750</b>       | 5,605,500           |
| <b>Total</b>      | <b>19,724,750</b>       | 14,085,500          |

**(b) Analysed by type of collateral**

|                 | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|-----------------|-------------------------|---------------------|
| Debt securities | <b>19,724,750</b>       | 14,085,500          |
| <b>Total</b>    | <b>19,724,750</b>       | 14,085,500          |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29 DEPOSITS FROM CUSTOMERS

|                         | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|-------------------------|-------------------------|---------------------|
| Demand deposits         |                         |                     |
| – Corporate deposits    | <b>89,499,150</b>       | 88,514,651          |
| – Personal deposits     | <b>21,356,631</b>       | 19,805,658          |
| Sub-total               | <b>110,855,781</b>      | 108,320,309         |
| Time deposits           |                         |                     |
| – Corporate deposits    | <b>85,228,635</b>       | 79,850,838          |
| – Personal deposits     | <b>48,033,331</b>       | 47,757,459          |
| Sub-total               | <b>133,261,966</b>      | 127,608,297         |
| Pledged deposits        |                         |                     |
| – Acceptances           | <b>14,647,020</b>       | 16,095,350          |
| – Letters of guarantees | <b>1,135,257</b>        | 1,365,111           |
| – Letters of credit     | <b>1,531,886</b>        | 674,149             |
| – Others                | <b>926,008</b>          | 1,024,677           |
| Sub-total               | <b>18,240,171</b>       | 19,159,287          |
| Others                  | <b>754,807</b>          | 319,505             |
| Total                   | <b>263,112,725</b>      | 255,407,398         |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 30 DEBT SECURITIES ISSUED

|                        | Note | 30 June 2018      | 31 December 2017 |
|------------------------|------|-------------------|------------------|
| Financial bonds        | (a)  | <b>2,997,169</b>  | 5,596,521        |
| Tier-two capital bonds | (b)  | <b>6,997,598</b>  | 6,997,457        |
| Interbank deposits     |      | <b>61,372,609</b> | 60,576,082       |
| <b>Total</b>           |      | <b>71,367,376</b> | 73,170,060       |

(a) Fixed rate green financial bonds of RMB3.0 billion with a term of three years was issued in September 2017. The coupon rate is 4.70% per annum.

(b) Tier-two capital bonds

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

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

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



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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31 OTHER LIABILITIES

|   | Note | 30 June 2018     | 31 December 2017 |
|---|------|------------------|------------------|
| Interest payable                          | (a)  | 4,331,381        | 4,434,703        |
| Accrued staff costs                       | (b)  | 363,321          | 363,897          |
| Finance lease payable                     |      | 644,421          | 413,679          |
| Dormant accounts                          |      | 80,910           | 80,776           |
| Payment and collection clearance accounts |      | 51,865           | 52,357           |
| Dividend payable                          |      | 24,327           | 24,327           |
| Provisions                                | (c)  | 234,731          | 59,417           |
| Others                                    |      | 973,908          | 716,655          |
| <b>Total</b>                              |      | <b>6,704,864</b> | <b>6,145,811</b> |

#### (a) Interest payable

|   | Note | 30 June 2018     | 31 December 2017 |
|---|------|------------------|------------------|
| Interest payable arising from:  |      |                  |                  |
| – Deposits from customers   |      | 3,348,098        | 3,401,054        |
| – Deposits and placements from banks and other financial institutions |      | 694,304          | 798,630          |
| – Debt securities issued  |      | 267,258          | 202,918          |
| – Financial assets sold under repurchase agreements                   |      | 16,588           | 30,648           |
| – Due to central bank   |      | 5,133            | 1,453            |
| <b>Total</b>  |      | <b>4,331,381</b> | <b>4,434,703</b> |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31 OTHER LIABILITIES (CONTINUED)

**(b) Accrued staff costs**

|   | Note | <b>30 June 2018</b> | 31 December 2017 |
|---|------|---------------------|------------------|
| Salary, bonuses and allowances payable            |      | <b>151,396</b>      | 159,969          |
| Staff welfare                                     |      | <b>69</b>           | –                |
| Social insurance and annuity payable              |      | <b>27,421</b>       | 746              |
| Housing allowances payable                        |      | <b>129</b>          | 61               |
| Labor union fee, staff and workers' education fee |      | <b>5,168</b>        | 1,899            |
| Supplementary retirement benefits payable         | (1)  | <b>179,138</b>      | 201,222          |
| <b>Total</b>                                      |      | <b>363,321</b>      | 363,897          |

**(1) Supplementary retirement benefits (“SRB”)**

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits payments is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 31 OTHER LIABILITIES (CONTINUED)

### (b) Accrued staff costs (Continued)

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

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

|  | 30 June 2018   | 31 December 2017 |
|--|----------------|------------------|
| Present value of early retirement plan         | 24,543         | 29,527           |
| Present value of supplementary retirement plan | 154,595        | 171,695          |
| <b>Total</b>                                   | <b>179,138</b> | 201,222          |

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

|   | 30 June 2018   | 31 December 2017 |
|---|----------------|------------------|
| As at 1 January   | 201,222        | 215,640          |
| Benefits paid during the period/year                          | (8,377)        | (20,701)         |
| Defined benefit cost recognised in profit or loss             | 3,485          | 5,811            |
| Defined benefit cost recognised in other comprehensive income | (17,192)       | 472              |
| <b>As at 30 June/31 December</b>                              | <b>179,138</b> | 201,222          |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 31 OTHER LIABILITIES (CONTINUED)

(b) **Accrued staff costs (Continued)**

(1) **Supplementary retirement benefits (“SRB”) (Continued)**

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

| <b>Early retirement plan</b>            | <b>30 June 2018</b>   | 31 December 2017 |
|---|-----------------------|------------------|
| Discount rate                           | <b>3.30%</b>          | 3.80%            |
| Retired age                             |                       |                  |
| – Male                                  | <b>60</b>             | 60               |
| – Female                                | <b>55</b>             | 55               |
| Annual increase rate of internal salary | <b>8.00%</b>          | 8.00%            |
| <b>Supplementary retirement plan</b>    | <b>30 June 2018</b>   | 31 December 2017 |
| Discount rate                           | <b>3.80%</b>          | 4.20%            |
| Retired age                             |                       |                  |
| – Male                                  | <b>60</b>             | 60               |
| – Female                                | <b>55</b>             | 55               |
| <b>Death rate for age 20 – 105</b>      | <b>30 June 2018</b>   | 31 December 2017 |
| – Male                                  | <b>0.0248% – 100%</b> | 0.0248% – 100%   |
| – Female                                | <b>0.012% – 100%</b>  | 0.012% – 100%    |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 31 OTHER LIABILITIES (CONTINUED)

### (c) Expected credit losses of credit commitment

As at 30 June 2018, movements of ECL of credit commitment during the period are as follows:

|   | 30 June 2018  |                                     |                                 | Total    |
|---|---------------|-------------------------------------|---------------------------------|----------|
|   | 12-months ECL | Lifetime ECL<br>not credit-impaired | Lifetime ECL<br>credit-impaired |          |
| 1 January 2018                            | 255,378       | 123                                 | 1,152                           | 256,653  |
| Transferred:                              |               |                                     |                                 |          |
| – to 12-months ECL                        | 88            | (59)                                | (29)                            | –        |
| – to lifetime ECL not credit-<br>impaired | (15)          | 15                                  | –                               | –        |
| – to lifetime ECL credit-impaired         | –             | (59)                                | 59                              | –        |
| Charge for the period                     | (25,344)      | 202                                 | 3,220                           | (21,922) |
| 30 June 2018                              | 230,107       | 222                                 | 4,402                           | 234,731  |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 SHARE CAPITAL

#### Authorised and issued share capital

|   | 30 June<br>2018 | 31 December<br>2017 |
|---|-----------------|---------------------|
| Ordinary shares in Mainland China             | 3,803,932       | 3,803,932           |
| Ordinary shares listed in Hong Kong (H-share) | 1,518,000       | 1,518,000           |
| Total   | 5,321,932       | 5,321,932           |

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 33 RESERVES

### (a) Capital reserve

|               | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------|-------------------------|---------------------|
| Share premium | <b>2,990,254</b>        | 2,990,254           |
| Others        | <b>64,615</b>           | 64,615              |
| Total         | <b>3,054,869</b>        | 3,054,869           |

### (b) Surplus reserve

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

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

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

### (c) General reserve

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**33 RESERVES (CONTINUED)**

**(d) Fair value reserve**

|   | <b>Fair value reserve</b> |          |
|---|---------------------------|----------|
| 31 December 2017  |                           | (22,667) |
| Changes in accounting policy                                  |                           | (1,266)  |
| 1 January 2018  |                           | (23,933) |
|   | <b>2018</b>               | 2017     |
| As at 1 January   | <b>(23,933)</b>           | 2,841    |
| Change in fair value recognised in other comprehensive income | <b>25,810</b>             | (1,751)  |
| Transfer to profit or loss upon disposal                      | <b>(14,189)</b>           | (32,259) |
| Less: deferred income tax                                     | <b>(2,905)</b>            | 8,502    |
| Sub-total   | <b>8,716</b>              | (25,508) |
| As at 30 June/31 December                                     | <b>(15,217)</b>           | (22,667) |



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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33 RESERVES (CONTINUED)

#### (e) Remeasurement of net defined benefit liability

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

|  | 2018     | 2017     |
|--|----------|----------|
| As at 1 January                                | (52,614) | (52,259) |
| Remeasurement of net defined benefit liability | 17,193   | (472)    |
| Less: deferred income tax                      | (4,298)  | 117      |
| Sub-total                                      | 12,895   | (355)    |
| As at 30 June/31 December                      | (39,719) | (52,614) |

### 34 PROFIT DISTRIBUTION

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 OTHER EQUITY INSTRUMENTS

### (a) Preference shares outstanding at the end of the year:

| Financial instrument outstanding | Time issued | Classifications | Dividend yield ratio/ Interest rate | Issue price     | Quantities | In original currency million | In RMB million | Maturity | Conversion conditions               |
|----------------------------------|-------------|-----------------|-------------------------------------|-----------------|------------|------------------------------|----------------|----------|-------------------------------------|
| Offshore preference shares       | 2017/10/18  | Equity          | 5.50%                               | USD20/<br>share | 59,550,000 | 1,191                        | 7,860          | None     | Mandatory conversion trigger events |
| Less: issuing cost               |             |                 |                                     |                 |            |                              | (34)           |          |                                     |
| Book value                       |             |                 |                                     |                 |            |                              | 7,826          |          |                                     |

### (b) Main clause

#### (1) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 OTHER EQUITY INSTRUMENTS (CONTINUED)

### (b) Main clause (Continued)

#### (2) *Dividend accumulation*

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

#### (3) *Distribution of residual profits*

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

#### (4) *Mandatory conversion trigger events*

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the CBIRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

#### (5) *Conditional redemption*

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the CBIRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares.

The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

**(a) Cash and cash equivalents comprise:**

|   | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---|-------------------------|---------------------|
| Cash on hand  | <b>924,071</b>          | 768,348             |
| Surplus deposit reserves with central bank  | <b>14,870,917</b>       | 12,122,850          |
| Deposits with banks and other financial institutions with original maturity of three months or less   | <b>2,069,007</b>        | 4,598,622           |
| Placements with banks and other financial institutions with original maturity of three months or less | <b>100,000</b>          | 1,764,234           |
| <b>Total</b>  | <b>17,963,995</b>       | 19,254,054          |

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

|   | <b>Six months ended 30 June</b> |                 |
|---|---------------------------------|-----------------|
|   | <b>2018</b>                     | 2017            |
| Cash and cash equivalents paid during the period for acquiring a subsidiary | –                               | 3,465           |
| Less: Cash and cash equivalents held by acquired subsidiary                 | –                               | (71,901)        |
| <b>Net proceeds from acquisition of a subsidiary</b>                        | <b>–</b>                        | <b>(68,436)</b> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Relationship of related parties

#### (i) Major shareholders

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

Shareholding in the Bank:

|                          | 30 June<br>2018 | 31 December<br>2017 |
|--------------------------|-----------------|---------------------|
| Zhengzhou Finance Bureau | 9.22%           | 9.22%               |

#### (ii) Subsidiaries and associates of the Bank

The detailed information of the Bank's subsidiaries and associates is set out in Note 20.

#### (iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37 (a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Bank (Note 31(b)).

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

### (b) Related party transactions and balances

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

#### (i) Transactions with major shareholders

|   | <b>30 June<br/>2018</b>         | 31 December<br>2017 |
|---|---------------------------------|---------------------|
| Balances at the end of the period/year: |                                 |                     |
| Deposits from customers                 | <b>186,765</b>                  | 190,355             |
| Interest payable                        | <b>18</b>                       | 20                  |
| Other liabilities                       | <b>64,285</b>                   | 64,285              |
|   |                                 |                     |
|   | <b>Six months ended 30 June</b> |                     |
|   | <b>2018</b>                     | 2017                |
| Transactions during the period:         |                                 |                     |
| Interest expense                        | <b>332</b>                      | 567                 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

#### (ii) Transactions with subsidiaries

|  | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|--|-------------------------|---------------------|
| Balances at the end of the period/year:                            |                         |                     |
| Deposits from banks and other financial institutions               | <b>387,262</b>          | 278,519             |
| Interest payable   | <b>482</b>              | 341                 |
| <p style="text-align: center;"><b>Six months ended 30 June</b></p> |                         |                     |
|  | <b>2018</b>             | 2017                |
| Transactions during the period:                                    |                         |                     |
| Interest income  | –                       | 1,987               |
| Interest expense   | <b>8,937</b>            | 12,039              |

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

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(b) Related party transactions and balances (Continued)

(iii) Transactions with associates

|   | 30 June<br>2018          | 31 December<br>2017 |
|---|--------------------------|---------------------|
| <hr/>   |                          |                     |
| Balances at the end of the period/year                          |                          |                     |
| Deposits/placements with banks and other financial institutions | 50,912                   | 100,909             |
| Interest receivables  | 69                       | 151                 |
| Deposits/placements from banks and other financial institutions | 290,247                  | 319,997             |
| Interest payable  | 2,420                    | 355                 |
| <hr/>   |                          |                     |
|   | Six months ended 30 June |                     |
|   | 2018                     | 2017                |
| <hr/>   |                          |                     |
| Transactions during the period:                                 |                          |                     |
| Interest income   | 1,250                    | 816                 |
| Interest expense  | 5,442                    | 434                 |
| <hr/>   |                          |                     |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

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

|   | <b>30 June<br/>2018</b>         | 31 December<br>2017 |
|---|---------------------------------|---------------------|
| <hr/>   |                                 |                     |
| Balances at the end of the period/year:                         |                                 |                     |
| Loans and advances to customers                                 | <b>2,528,859</b>                | 3,803,531           |
| Financial investments measured at amortised cost                | <b>5,526,650</b>                | –                   |
| Financial investments classified as loans and receivables       | –                               | 3,697,000           |
| Interest receivables  | <b>10,208</b>                   | 34,777              |
| Deposits from customers   | <b>12,190,858</b>               | 8,642,052           |
| Deposits/placements from banks and other financial institutions | <b>246,726</b>                  | 252,526             |
| Interest payable  | <b>16,325</b>                   | 14,717              |
| <hr/>   |                                 |                     |
|   | <b>Six months ended 30 June</b> |                     |
|   | <b>2018</b>                     | 2017                |
| <hr/>   |                                 |                     |
| Transactions during the period:                                 |                                 |                     |
| Interest income   | <b>249,609</b>                  | 38,512              |
| Interest expense  | <b>33,369</b>                   | 13,656              |
| <hr/>   |                                 |                     |

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(c) Key management personnel

(i) Transactions with key management personnel

|   | 30 June<br>2018 | 31 December<br>2017 |
|---|-----------------|---------------------|
| Balances at the end of the period/year: |                 |                     |
| Loans and advances to customers         | 16,055          | 13,076              |
| Interest receivables                    | 18              | 10                  |
| Deposits from customers                 | 16,962          | 14,170              |
| Interest payable                        | 32              | 22                  |
| <b>Six months ended 30 June</b>         |                 |                     |
|   | 2018            | 2017                |
| Transactions during the period:         |                 |                     |
| Interest income                         | 347             | 176                 |
| Interest expense                        | 79              | 53                  |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

### (c) Key management personnel Continued

#### (ii) Key management personnel remuneration

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2018                     | 2017   |
| Salaries and other emoluments   | 6,385                    | 6,228  |
| Discretionary bonuses   | 12,004                   | 11,175 |
| Contribution by the employer to social insurance and welfare plans, housing allowance, etc. | 1,575                    | 1,556  |
| Total   | 19,964                   | 18,959 |

No post-employment benefits, termination benefits or other long-term benefits were provided to key management personnel for the period ended 30 June 2018 and 30 June 2017.

## 38 SEGMENT REPORTING

### (a) Business Segment

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

#### *Corporate banking*

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

#### *Retail banking*

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

#### *Treasury business*

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

#### *Others*

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

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

|  | Six months ended 30 June 2018 |                |                   |         |             |
|--|-------------------------------|----------------|-------------------|---------|-------------|
|  | Corporate banking             | Retail banking | Treasury business | Others  | Total       |
| Operating income                           |                               |                |                   |         |             |
| External net interest income               | 1,309,070                     | 605,306        | 907,248           | –       | 2,821,624   |
| Internal net interest income/<br>(expense) | 1,018,348                     | 408,421        | (1,426,769)       | –       | –           |
| Net interest income                        | 2,327,418                     | 1,013,727      | (519,521)         | –       | 2,821,624   |
| Net fee and commission income              | 234,631                       | 57,890         | 666,055           | –       | 958,576     |
| Net trading losses                         | –                             | –              | (71,054)          | –       | (71,054)    |
| Net gains arising from investments         | –                             | –              | 1,416,422         | –       | 1,416,422   |
| Other operating income                     | –                             | –              | –                 | 10,810  | 10,810      |
| Operating income                           | 2,562,049                     | 1,071,617      | 1,491,902         | 10,810  | 5,136,378   |
| Operating expenses                         | (582,916)                     | (443,869)      | (400,309)         | (2,491) | (1,429,585) |
| Impairment losses on assets                | (317,423)                     | (238,814)      | (140,286)         | –       | (696,523)   |
| Operating profit                           | 1,661,710                     | 388,934        | 951,307           | 8,319   | 3,010,270   |
| Share of profits of associates             | –                             | –              | –                 | 26,331  | 26,331      |
| Profit before taxation                     | 1,661,710                     | 388,934        | 951,307           | 34,650  | 3,036,601   |
| Other segment information                  |                               |                |                   |         |             |
| – Depreciation and amortisation            | 36,108                        | 70,482         | 41,253            | –       | 147,843     |
| – Capital expenditure                      | 102,036                       | 79,523         | 72,264            | 307     | 254,130     |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**38 SEGMENT REPORTING (CONTINUED)**

**(a) Business Segment (Continued)**

|   | 30 June 2018         |                   |                      |           | Total              |
|---|----------------------|-------------------|----------------------|-----------|--------------------|
|   | Corporate<br>banking | Retail<br>banking | Treasury<br>business | Others    |                    |
| Segment assets                            | 143,445,383          | 52,062,857        | 245,229,739          | 1,527,962 | 442,265,941        |
| Deferred tax assets                       |                      |                   |                      |           | 1,370,089          |
| Total assets                              |                      |                   |                      |           | <u>443,636,030</u> |
| Segment liabilities/<br>Total liabilities | 194,051,251          | 73,059,285        | 139,664,803          | 1,970,132 | 408,745,471        |
| Credit commitments                        | 70,989,664           | 1,376,115         | –                    | –         | 72,365,779         |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38 SEGMENT REPORTING (CONTINUED)

### (a) Business Segment (Continued)

|  | Six months ended 30 June 2017 |                |                   |          | Total       |
|--|-------------------------------|----------------|-------------------|----------|-------------|
|  | Corporate banking             | Retail banking | Treasury business | Others   |             |
| Operating income                           |                               |                |                   |          |             |
| External net interest income               | 1,443,954                     | 344,064        | 2,271,576         | –        | 4,059,594   |
| Internal net interest income/<br>(expense) | 204,201                       | 509,798        | (713,999)         | –        | –           |
| Net interest income                        | 1,648,155                     | 853,862        | 1,557,577         | –        | 4,059,594   |
| Net fee and commission income              | 373,619                       | 98,417         | 437,274           | –        | 909,310     |
| Net trading losses                         | –                             | –              | (163,299)         | –        | (163,299)   |
| Net gains arising from investments         | –                             | –              | 33,456            | –        | 33,456      |
| Other operating income                     | –                             | –              | –                 | 20,766   | 20,766      |
| Operating income                           | 2,021,774                     | 952,279        | 1,865,008         | 20,766   | 4,859,827   |
| Operating expenses                         | (531,050)                     | (264,648)      | (328,102)         | (10,006) | (1,133,806) |
| Impairment losses on assets                | (457,067)                     | (260,039)      | (20,000)          | –        | (737,106)   |
| Operating profit                           | 1,033,657                     | 427,592        | 1,516,906         | 10,760   | 2,988,915   |
| Share of profits of associates             | –                             | –              | –                 | 18,810   | 18,810      |
| Profit before taxation                     | 1,033,657                     | 427,592        | 1,516,906         | 29,570   | 3,007,725   |
| Other segment information                  |                               |                |                   |          |             |
| – Depreciation and amortisation            | 64,385                        | 38,499         | 19,198            | –        | 122,082     |
| – Capital expenditure                      | 76,073                        | 38,406         | 45,597            | 390      | 160,466     |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 SEGMENT REPORTING (CONTINUED)

#### (a) Business Segment (Continued)

|                                       | 31 December 2017     |                   |                      |           | Total       |
|---------------------------------------|----------------------|-------------------|----------------------|-----------|-------------|
|                                       | Corporate<br>banking | Retail<br>banking | Treasury<br>business | Others    |             |
| Segment assets                        | 135,166,061          | 47,444,212        | 250,530,100          | 1,418,098 | 434,558,471 |
| Deferred tax assets                   |                      |                   |                      |           | 1,270,416   |
| Total assets                          |                      |                   |                      |           | 435,828,887 |
| Segment liabilities/Total liabilities | 187,633,898          | 71,725,668        | 141,636,728          | 1,393,228 | 402,389,522 |
| Credit commitments                    | 66,790,405           | 1,275,828         | –                    | –         | 68,066,233  |

#### (b) Geographical information

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

### 39 RISK MANAGEMENT

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

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

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

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

### (a) Credit risk

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

#### *Credit business*

The Board is responsible for establishing the Group's risk management strategies and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that credit risk in various businesses are properly identified, assessed, calculated and monitored. The Credit Management Department is responsible for credit risk management. Departments such as the Credit Approval Department, the Corporate Business Department, the Retail Banking Department, the Financial Department of Small Business, Investment Bank Department, and the Financial Markets Department carry out credit businesses and investments portfolios business according to the Group's risk management policies and procedures. The Group adopts a loan risk classification approach to manage its loan portfolio risk.

#### *Treasury Business*

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

The following credit risk management policies were applicable to the year ended 31 December 2017:

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

The following credit risk management policies were applicable to six months period ended 30 June 2018:

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Measurement of ECL*

Based on whether there is a significant increase in credit risk and whether the asset has incurred credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively.

The Group measures loss provision of the financial instruments that meet the following conditions according to the amount of expected credit losses within the next 12 months, and measures loss provision for other financial instruments in accordance with the amount of lifetime expected credit losses.

- The financial instruments that are determined to have low credit risk at the reporting date; or
- The financial instruments for which credit risk has not increased significantly since initial recognition.

#### *(i) Significant increase in credit risk*

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial instruments has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status
- Application of a grace period or debt-restructuring
- Significant changes with an adverse effect in the borrower's business conditions
- Less value of the collaterals (for the collateral loans and pledged loans only)
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans
- The borrower is more than 30 days past due

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Measurement of ECL (Continued)*

##### (i) *Significant increase in credit risk (Continued)*

The Group uses watch lists to monitor credit risk of financial instruments related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 30 June 2018, the Group has not considered that any of its financial instruments has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

##### (ii) *Definition of "default" and "credit-impaired assets"*

When a financial instrument meets one or more of the following conditions, the Group considers the financial asset to be in default, and the criteria are consistent with the definition of credit-impaired assets.

##### (1) Quantitative criterion.

The financial asset is more than 90 days past due.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Measurement of ECL (Continued)*

##### (ii) *Definition of “default” and “credit-impaired assets” (Continued)*

###### (2) Qualitative criterion.

The borrower meets the criterion of “having difficulty in repayment”, which indicates that the borrower has significant financial difficulty, including:

- the borrower has been in the grace period for a long time
- the death of the borrower
- the borrower enters bankruptcy
- the borrower breaches (one or more) terms of the contract that the debtor shall be subject to
- the disappearance of an active market for the related financial asset because of financial difficulties faced by the borrower
- the creditor make concessions due to the financial difficulties faced by the borrower
- it becoming probable that the borrower will enter bankruptcy
- a higher discount was obtained during the acquisition of assets, and the assets has incurred credit loss when they are acquired

The above criteria apply to all financial instruments of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Measurement of ECL (Continued)*

##### *(iii) Notes to the parameters, assumptions and valuation techniques*

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the loans with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the borrower.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### *Measurement of ECL (Continued)*

##### *(iii) Notes to the parameters, assumptions and valuation techniques (Continued)*

- In respect of the products of revolving credit agreement, the Group estimates the remaining withdrawal within the limits by using the balance of the loan after previous withdrawals and the “credit conversion factor”, so as to predict the exposure at default. Based on the Group’s analysis on recent default data, these assumptions vary based on differences in product type and utilization rate of the limits.
- The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to loans classified as guarantees, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to fiduciary loans, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers. The LGD is affected by the recovery strategies, which include the transfer plan and pricing of loans.
- Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD. Forward-looking information that need to be considered is different due to different product types.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

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

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the reporting period is disclosed in Note 41(a).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### (2) Loans and advances to customers

(i) Loans and advances to customers were analysed as follows as at 30 June 2018:

|   | <b>30 June<br/>2018</b> |
|---|-------------------------|
| Gross balance of loans and advances that are assessed for 12-month ECL                              |                         |
| – Overdue but not credit-impaired   | <b>860,306</b>          |
| – Neither overdue nor credit-impaired   | <b>131,191,725</b>      |
| Sub-total   | <b>132,052,031</b>      |
| Gross balance of loans and advances that are not credit-impaired and assessed for lifetime ECL      |                         |
| – Overdue but not credit-impaired   | <b>1,735,291</b>        |
| – Neither overdue nor credit-impaired   | <b>1,482,068</b>        |
| Sub-total   | <b>3,217,359</b>        |
| Gross balance of credit-impaired loans and advances that are assessed for lifetime ECL              |                         |
| – Overdue and credit-impaired   | <b>3,920,841</b>        |
| – Not overdue but credit-impaired   | <b>228</b>              |
| Sub-total   | <b>3,921,069</b>        |
| Less: Provision for impairment losses on loans and advances to customers measured at amortised cost | <b>(4,364,401)</b>      |
| Net loans and advances to customers   | <b>134,826,058</b>      |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

- (ii) Neither overdue nor credit-impaired

Credit risk of loans and advances to customers neither overdue nor credit-impaired was analysed as follows as at 30 June 2018:

|                              | 30 June<br>2018 |
|------------------------------|-----------------|
| Corporate loans and advances | 95,558,266      |
| Personal loans and advances  | 37,115,527      |
| Total gross balance          | 132,673,793     |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

##### (iii) Overdue but not credit-impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not credit-impaired as at 30 June 2018.

|                              | 30 June 2018                        |                              |                  |
|------------------------------|-------------------------------------|------------------------------|------------------|
|                              | Less than<br>1 month<br>(inclusive) | 1 to 3 months<br>(inclusive) | Total            |
| Corporate loans and advances | 781,578                             | 1,305,477                    | 2,087,055        |
| Personal loans and advances  | 164,223                             | 344,319                      | 508,542          |
| <b>Total gross balance</b>   | <b>945,801</b>                      | <b>1,649,796</b>             | <b>2,595,597</b> |

Fair value of collateral held against loans and advances overdue but not credit-impaired as at 30 June 2018 was analysed as follows:

|  | 30 June<br>2018 |
|--|-----------------|
| Fair value of collateral held against loans and advances overdue but not credit-impaired | 2,226,341       |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

##### (iv) Credit-impaired loans

Credit-impaired loans as at 30 June 2018 were analysed as follows:

|  | <b>30 June<br/>2018</b> |
|--|-------------------------|
| Gross balance  |                         |
| – Corporate loans and advances   | <b>2,801,298</b>        |
| – Personal loans and advances  | <b>1,119,771</b>        |
| Sub-total  | <b>3,921,069</b>        |
| Provision for impairment losses  |                         |
| – Corporate loans and advances   | <b>(1,593,668)</b>      |
| – Personal loans and advances  | <b>(672,467)</b>        |
| Sub-total  | <b>(2,266,135)</b>      |
| Net balance  |                         |
| – Corporate loans and advances   | <b>1,207,630</b>        |
| – Personal loans and advances  | <b>447,304</b>          |
| Total  | <b>1,654,934</b>        |
| Fair value of collateral held against credit-impaired loans and advances | <b>2,222,506</b>        |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

(v) Loans and advances to customers were analysed as follows as at 31 December 2017:

|  | Note   | <b>31 December<br/>2017</b> |
|--|--------|-----------------------------|
| Gross balance of loans and advances to customers |        |                             |
| – Neither overdue nor impaired                   | (vi)   | 121,576,757                 |
| – Overdue but not impaired                       | (vii)  | 4,954,035                   |
| – Impaired                                       | (viii) | 1,925,686                   |
| Sub-total  |        | 128,456,478                 |
| Less: provision for impairment loss              |        |                             |
| – Neither overdue nor impaired                   |        | (2,500,249)                 |
| – Overdue but not impaired                       |        | (719,329)                   |
| – Impaired                                       |        | (780,958)                   |
| Sub-total  |        | (4,000,536)                 |
| Net balance                                      |        |                             |
| – Neither overdue nor impaired                   |        | 119,076,508                 |
| – Overdue but not impaired                       |        | 4,234,706                   |
| – Impaired                                       |        | 1,144,728                   |
| Total  |        | 124,455,942                 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

(vi) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired as at 31 December 2017 was analysed as follows:

|                              | <b>31 December<br/>2017</b> |
|------------------------------|-----------------------------|
| Corporate loans and advances | 89,263,328                  |
| Personal loans and advances  | 32,313,429                  |
| Total gross balance          | 121,576,757                 |

(vii) Overdue but not impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at 31 December 2017.

|                              | <b>31 December 2017</b>                      |  |   |                             |           |
|------------------------------|--|--|---|-----------------------------|-----------|
|                              | <b>Less than<br/>1 month<br/>(inclusive)</b> | <b>1 to 3<br/>months<br/>(inclusive)</b> | <b>3 months<br/>to 1 year<br/>(inclusive)</b> | <b>More than<br/>1 year</b> |           |
| Corporate loans and advances | 971,263                                      | 1,676,854                                | 779,303                                       | 34,785                      | 3,462,205 |
| Personal loans and advances  | 369,630                                      | 519,940                                  | 478,327                                       | 123,933                     | 1,491,830 |
| Total gross balance          | 1,340,893                                    | 2,196,794                                | 1,257,630                                     | 158,718                     | 4,954,035 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

##### (vii) Overdue but not impaired (Continued)

Fair value of collateral held against loans and advances overdue but not impaired as at 31 December 2017 was analysed as follows:

|   | <b>31 December<br/>2017</b> |
|---|-----------------------------|
| Fair value of collateral held against loans and advances overdue but not impaired | 3,252,167                   |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

(viii) Impaired loans

|   | <b>31 December<br/>2017</b> |
|---|-----------------------------|
| <hr/>   |                             |
| Gross balance   |                             |
| – Corporate loans and advances                                    | 1,617,673                   |
| – Personal loans and advances                                     | 308,013                     |
| <hr/>   |                             |
| Sub-total   | 1,925,686                   |
| <hr/>   |                             |
| Provision for impairment losses                                   |                             |
| – Corporate loans and advances                                    | (640,455)                   |
| – Personal loans and advances                                     | (140,503)                   |
| <hr/>   |                             |
| Sub-total   | (780,958)                   |
| <hr/>   |                             |
| Net balance   |                             |
| – Corporate loans and advances                                    | 977,218                     |
| – Personal loans and advances                                     | 167,510                     |
| <hr/>   |                             |
| Total   | 1,144,728                   |
| <hr/>   |                             |
| Fair value of collateral held against impaired loans and advances | 1,313,544                   |
| <hr/>   |                             |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

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

##### (ix) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrowers' financial conditions or of the borrowers' inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduling is most commonly applied to term loans. There were no rescheduled loans as at 30 June 2018 and 31 December 2017.

#### (3) Amounts due from banks and other financial institutions

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

|                        | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|------------------------|-------------------------|---------------------|
| <b>Carrying amount</b> |                         |                     |
| – grade A to AAA       | <b>17,489,608</b>       | 22,775,611          |
| – grade B to BBB       | <b>1,215,659</b>        | 1,123,835           |
| – unrated              | <b>56,614</b>           | 529,207             |
| <b>Total</b>           | <b>18,761,881</b>       | 24,428,653          |

As at 30 June 2018, amounts due from banks and other financial institutions of the Group were neither overdue nor credit-impaired. As at 31 December 2017, amounts due from banks and other financial institutions of the Group were neither overdue nor impaired.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### (4) Debt securities investments

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

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers as at 30 June 2018:

|  | 30 June<br>2018 |
|--|-----------------|
| <b>Carrying amount</b>                   |                 |
| Neither overdue nor credit-impaired      |                 |
| – Government                             | 22,240,547      |
| – Policy banks                           | 30,444,701      |
| – Banks and other financial institutions | 3,667,892       |
| – Corporate                              | 9,790,919       |
| Subtotal                                 | 66,144,059      |
| Credit-impaired but not overdue          |                 |
| – Corporate                              | 263,847         |
| Total                                    | 66,407,906      |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### (4) Debt securities investments (Continued)

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers as at 31 December 2017:

|  | 31 December<br>2017 |
|--|---------------------|
| <hr/>                                    |                     |
| <b>Carrying amount</b>                   |                     |
| Neither overdue nor impaired             |                     |
| – Government                             | 20,177,393          |
| – Policy banks                           | 30,253,171          |
| – Banks and other financial institutions | 6,283,256           |
| – Corporate                              | 7,505,397           |
| <hr/>                                    |                     |
| Total                                    | 64,219,217          |
| <hr/>                                    |                     |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

**39 RISK MANAGEMENT (CONTINUED)**

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

**(5) Financial investments measured at amortised cost**

*The Group*

|  | <b>30 June<br/>2018</b> |
|--|-------------------------|
| Balance of financial investments measured at amortised cost that are assessed for 12-months ECL                    |                         |
| – Overdue but not credit-impaired  | <b>200,000</b>          |
| – Neither overdue nor credit-impaired  | <b>163,897,847</b>      |
| Sub-total  | <b>164,097,847</b>      |
| Balance of not credit-impaired financial investments measured at amortised cost that are assessed for lifetime ECL | –                       |
| Balance of credit-impaired financial investments and measured at amortised cost that are assessed for lifetime ECL |                         |
| – Credit-impaired but not overdue  | <b>263,847</b>          |
| – Overdue and credit-impaired  | <b>1,776,561</b>        |
| Sub-total  | <b>2,040,408</b>        |
| Less: Provision for impairment losses  | <b>(1,301,310)</b>      |
| Total  | <b>164,836,945</b>      |
| Fair value of collaterals held against credit-impaired financial investments that are measured at amortised cost   | <b>2,418,753</b>        |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### (6) *Financial investments classified as loans and receivables*

|   | 31 December<br>2017 |
|---|---------------------|
| Gross balance of financial investments classified as loans and receivables  |                     |
| – Neither overdue nor impaired  | 114,379,282         |
| – Overdue but not impaired  | 2,525,000           |
| – Impaired  | 206,561             |
| Sub-total   | 117,110,843         |
| Less: allowance for impairment loss   |                     |
| – Neither overdue nor impaired  | (440,622)           |
| – Overdue but not impaired  | (117,830)           |
| – Impaired  | (81,561)            |
| Sub-total   | (640,013)           |
| Net balance   |                     |
| – Neither overdue nor impaired  | 113,938,660         |
| – Overdue but not impaired  | 2,407,170           |
| – Impaired  | 125,000             |
|   | 116,470,830         |
| Fair value of collaterals held against financial investments classified as loans and receivables overdue but not impaired | 4,486,208           |
| Fair value of collaterals held against impaired financial investments classified as loans and receivables                 | 125,000             |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk

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

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

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

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

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

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) *Interest rate risk*

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

##### (i) *Repricing risk*

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) Interest rate risk (Continued)

##### (i) Repricing risk (Continued)

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

|  | 30 June 2018       |                         |                                       |  |  |                         |
|--|--------------------|-------------------------|---------------------------------------|--|--|-------------------------|
|  | Total              | Non-interest<br>bearing | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between<br>one year and<br>five years<br>(inclusive) | More than<br>five years |
| <b>Assets</b>                                  |                    |                         |                                       |  |  |                         |
| Cash and deposits                              |                    |                         |                                       |  |  |                         |
| with central bank                              | 45,853,549         | 1,133,113               | 44,720,436                            | -  | -  | -                       |
| Deposits/placements with banks                 |                    |                         |                                       |  |  |                         |
| and other financial institutions               | 8,620,803          | 242,265                 | 5,873,502                             | 2,416,637  | 83,399   | 5,000                   |
| Financial assets held under resale agreements  | 10,141,078         | -                       | 10,141,078                            | -  | -  | -                       |
| Loans and advances to customers <sup>(1)</sup> | 134,826,058        | -                       | 92,077,782                            | 37,820,346   | 3,026,480  | 1,901,450               |
| Investments <sup>(3)</sup>                     | 223,479,375        | 48,027,058              | 17,028,393                            | 22,726,947   | 95,528,508   | 40,168,469              |
| Finance lease receivables                      | 13,334,024         | -                       | 10,862,359                            | 2,471,665  | -  | -                       |
| Others   | 7,381,143          | 7,313,758               | -                                     | 67,385   | -  | -                       |
| <b>Total assets</b>                            | <b>443,636,030</b> | <b>56,716,194</b>       | <b>180,703,550</b>                    | <b>65,502,980</b>                                      | <b>98,638,387</b>                                    | <b>42,074,919</b>       |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) Interest rate risk (Continued)

##### (i) Repricing risk (Continued)

|   | 30 June 2018       |                      |                                 |   |   |                      |
|---|--------------------|----------------------|---------------------------------|---|---|----------------------|
|   | Total              | Non-interest bearing | Within three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| <b>Liabilities</b>  |                    |                      |                                 |   |   |                      |
| Due to central bank   | 1,599,000          | -                    | 28,000                          | 1,571,000                                     | -   | -                    |
| Deposits/placements from banks and other financial institutions | 45,823,187         | -                    | 15,689,369                      | 29,733,818                                    | 400,000                                     | -                    |
| Financial assets sold under repurchase agreements               | 19,724,750         | -                    | 19,724,750                      | -   | -   | -                    |
| Deposits from customers   | 263,112,725        | 429,732              | 150,738,834                     | 59,100,712                                    | 44,040,187                                  | 8,803,260            |
| Debt securities issued  | 71,367,376         | -                    | 21,725,974                      | 39,646,635                                    | 9,994,767                                   | -                    |
| Others  | 7,118,433          | 7,073,396            | -                               | 45,037  | -   | -                    |
| <b>Total liabilities</b>  | <b>408,745,471</b> | <b>7,503,128</b>     | <b>207,906,927</b>              | <b>130,097,202</b>                            | <b>54,434,954</b>                           | <b>8,803,260</b>     |
|   | -                  | -                    | -                               | -   | -   | -                    |
| <b>Asset-liability gap</b>                                      | <b>34,890,559</b>  | <b>49,213,066</b>    | <b>(27,203,377)</b>             | <b>(64,594,222)</b>                           | <b>44,203,433</b>                           | <b>33,271,659</b>    |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 RISK MANAGEMENT (CONTINUED)

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

##### (1) Interest rate risk (Continued)

##### (i) Repricing risk (Continued)

|  | 31 December 2017   |                         |                                       |  |  |                         |
|--|--------------------|-------------------------|---------------------------------------|--|--|-------------------------|
|  | Total              | Non-interest<br>bearing | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between<br>one year and<br>five years<br>(inclusive) | More than<br>five years |
| <b>Assets</b>  |                    |                         |                                       |  |  |                         |
| Cash and deposits with central bank                                | 45,635,132         | 1,179,134               | 44,455,998                            | -  | -  | -                       |
| Deposits/placements with banks and other<br>financial institutions | 20,021,177         | 303,103                 | 8,365,841                             | 11,339,733   | 7,500  | 5,000                   |
| Financial assets held under<br>resale agreements                   | 4,407,476          | -                       | 4,407,476                             | -  | -  | -                       |
| Loans and advances to customers <sup>(1)</sup>                     | 124,455,942        | -                       | 90,087,783                            | 31,717,262   | 2,219,858  | 431,039                 |
| Investments <sup>(2)</sup>   | 222,954,437        | 288,591                 | 31,217,809                            | 41,466,381   | 102,898,199  | 47,083,457              |
| Finance lease receivables  | 10,490,994         | -                       | 7,868,449                             | 2,622,545  | -  | -                       |
| Others   | 7,863,729          | 7,500,984               | 362,745                               | -  | -  | -                       |
| <b>Total assets</b>  | <b>435,828,887</b> | <b>9,271,812</b>        | <b>186,766,101</b>                    | <b>87,145,921</b>                                      | <b>105,125,557</b>                                   | <b>47,519,496</b>       |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) Interest rate risk (Continued)

##### (i) Repricing risk (Continued)

|   | 31 December 2017   |                      |                                 |   |   |                      |
|---|--------------------|----------------------|---------------------------------|---|---|----------------------|
|   | Total              | Non-interest bearing | Within three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| <b>Liabilities</b>  |                    |                      |                                 |   |   |                      |
| Due to central bank   | 1,599,550          | -                    | 1,000,000                       | 599,550                                       | -   | -                    |
| Deposits/placements from banks and other financial institutions | 51,282,755         | -                    | 14,174,466                      | 37,008,289                                    | 100,000                                     | -                    |
| Financial assets sold under repurchase agreements               | 14,085,500         | -                    | 14,085,500                      | -   | -   | -                    |
| Deposits from customers   | 255,407,398        | 295,136              | 150,653,254                     | 59,072,809                                    | 45,386,199                                  | -                    |
| Debt securities issued  | 73,170,060         | -                    | 20,590,717                      | 42,585,365                                    | 9,993,978                                   | -                    |
| Others  | 6,844,259          | 6,811,949            | -                               | 32,310  | -   | -                    |
| <b>Total liabilities</b>  | <b>402,389,522</b> | <b>7,107,085</b>     | <b>200,503,937</b>              | <b>139,298,323</b>                            | <b>55,480,177</b>                           | <b>-</b>             |
| <b>Asset-liability gap</b>                                      | <b>33,439,365</b>  | <b>2,164,727</b>     | <b>(13,737,836)</b>             | <b>(52,152,402)</b>                           | <b>49,645,380</b>                           | <b>47,519,496</b>    |

(1) For the Group's loans and advances to customers, the category "Within three months (inclusive)" as at 30 June 2018 includes overdue amounts (net of allowance for impairment losses) of RMB3,899 million (31 December 2017: RMB5,379 million).

(2) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates. The category "Within three months (inclusive)" as at 31 December 2017 includes overdue amounts (net of allowance for impairment losses) of RMB2,472 million.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) Interest rate risk (Continued)

##### (i) Repricing risk (Continued)

- (3) As at 30 June 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates, the category "Within three months (inclusive)" as at 30 June 2018 includes overdue amounts (net of allowance for impairment losses) of RMB1,339 million.

##### (ii) Interest rate sensitivity analysis

|   | <b>30 June<br/>2018<br/>(Decrease)/<br/>increase</b> | 31 December<br>2017<br>(Decrease)/<br>increase |
|---|--|--|
| <b>Change in net interest income</b>        |  |  |
| Up 100 bps parallel shift in yield curves   | <b>(567,368)</b>                                     | (386,729)                                      |
| Down 100 bps parallel shift in yield curves | <b>567,368</b>                                       | 386,729  |

|   | <b>30 June<br/>2018<br/>(Decrease)/<br/>increase</b> | 31 December<br>2017<br>(Decrease)/<br>increase |
|---|--|--|
| <b>Change in equity</b>                     |  |  |
| Up 100 bps parallel shift in yield curves   | <b>(639,447)</b>                                     | (414,627)                                      |
| Down 100 bps parallel shift in yield curves | <b>593,414</b>                                       | 370,456  |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (1) Interest rate risk (Continued)

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

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

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio, all the position will be held and keep unchanged after matured; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 RISK MANAGEMENT (CONTINUED)

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

##### (2) Currency risk

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

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

|   | 30 June 2018       |                         |                            |                           |
|---|--------------------|-------------------------|----------------------------|---------------------------|
|   | RMB                | USD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total (RMB<br>Equivalent) |
| <b>Assets</b>   |                    |                         |                            |                           |
| Cash and deposits with central bank                             | 45,238,810         | 612,540                 | 2,199                      | 45,853,549                |
| Deposits/placements with banks and other financial institutions | 2,024,692          | 6,582,437               | 13,674                     | 8,620,803                 |
| Financial assets held under resale agreements                   | 10,141,078         | –                       | –                          | 10,141,078                |
| Loans and advances to customers                                 | 134,154,583        | 671,475                 | –                          | 134,826,058               |
| Investments (i)   | 215,661,673        | 7,393,913               | 423,789                    | 223,479,375               |
| Finance lease receivables                                       | 13,334,024         | –                       | –                          | 13,334,024                |
| Others  | 6,752,587          | 628,556                 | –                          | 7,381,143                 |
| <b>Total assets</b>   | <b>427,307,447</b> | <b>15,888,921</b>       | <b>439,662</b>             | <b>443,636,030</b>        |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (2) Currency risk (Continued)

|   | 30 June 2018       |                         |                            |                           |
|---|--------------------|-------------------------|----------------------------|---------------------------|
|   | RMB                | USD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total (RMB<br>Equivalent) |
| <b>Liabilities</b>  |                    |                         |                            |                           |
| Due to central bank   | 1,599,000          | –                       | –                          | 1,599,000                 |
| Deposits/placements from<br>banks and other financial<br>institutions | 45,311,907         | 511,280                 | –                          | 45,823,187                |
| Financial assets sold under<br>repurchase agreements                  | 19,724,750         | –                       | –                          | 19,724,750                |
| Deposits from customers   | 254,987,965        | 8,124,494               | 266                        | 263,112,725               |
| Debt securities issued  | 71,367,376         | –                       | –                          | 71,367,376                |
| Others  | 6,343,868          | 203,384                 | 571,181                    | 7,118,433                 |
| <b>Total liabilities</b>  | <b>399,334,866</b> | <b>8,839,158</b>        | <b>571,447</b>             | <b>408,745,471</b>        |
| <b>Net position</b>   | <b>27,972,581</b>  | <b>7,049,763</b>        | <b>(131,785)</b>           | <b>34,890,559</b>         |
| Off-balance sheet credit<br>commitments                               | 69,798,397         | 2,489,719               | 77,663                     | 72,365,779                |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 RISK MANAGEMENT (CONTINUED)

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

##### (2) Currency risk (Continued)

|   | 31 December 2017   |                         |                            |                           |
|---|--------------------|-------------------------|----------------------------|---------------------------|
|   | RMB                | USD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) | Total (RMB<br>Equivalent) |
| <b>Assets</b>   |                    |                         |                            |                           |
| Cash and deposits with central bank                             | 44,768,691         | 864,676                 | 1,765                      | 45,635,132                |
| Deposits/placements with banks and other financial institutions | 1,252,260          | 18,512,003              | 256,914                    | 20,021,177                |
| Financial assets held under resale agreements                   | 4,407,476          | –                       | –                          | 4,407,476                 |
| Loans and advances to customers                                 | 123,401,784        | 1,054,158               | –                          | 124,455,942               |
| Investments (i)   | 217,464,588        | 5,239,125               | 250,724                    | 222,954,437               |
| Finance lease receivables                                       | 10,490,994         | –                       | –                          | 10,490,994                |
| Others  | 7,641,607          | 222,122                 | –                          | 7,863,729                 |
| <b>Total assets</b>   | <b>409,427,400</b> | <b>25,892,084</b>       | <b>509,403</b>             | <b>435,828,887</b>        |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (2) Currency risk (Continued)

|  | 31 December 2017   |                         |                            | Total (RMB<br>Equivalent) |
|--|--------------------|-------------------------|----------------------------|---------------------------|
|  | RMB                | USD (RMB<br>Equivalent) | Others (RMB<br>Equivalent) |                           |
| <b>Liabilities</b>   |                    |                         |                            |                           |
| Due to central bank  | 1,599,550          | –                       | –                          | 1,599,550                 |
| Deposits/placements from banks<br>and other financial institutions | 51,282,755         | –                       | –                          | 51,282,755                |
| Financial assets sold under<br>repurchase agreements               | 14,085,500         | –                       | –                          | 14,085,500                |
| Deposits from customers  | 239,066,363        | 16,262,297              | 78,738                     | 255,407,398               |
| Debt securities issued   | 73,170,060         | –                       | –                          | 73,170,060                |
| Others   | 6,077,723          | 285,128                 | 481,408                    | 6,844,259                 |
| <b>Total liabilities</b>   | <b>385,281,951</b> | <b>16,547,425</b>       | <b>560,146</b>             | <b>402,389,522</b>        |
| <b>Net position</b>  | <b>24,145,449</b>  | <b>9,344,659</b>        | <b>(50,743)</b>            | <b>33,439,365</b>         |
| Off-balance sheet credit<br>commitments                            | 66,363,583         | 1,623,457               | 79,193                     | 68,066,233                |

- (i) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates.
- (ii) As at 30 June 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### (2) Currency risk (Continued)

| <b>Change in profit after taxation and equity</b> | <b>30 June<br/>2018<br/>Increase/<br/>(decrease)</b> | 31 December<br>2017<br>Increase/<br>(decrease) |
|---|--|--|
| Up 100 bps change of foreign exchange rate        | <b>7,842</b>   | 10,668   |
| Down 100 bps change of foreign exchange rate      | <b>(7,842)</b>                                       | (10,668)                                       |

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

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

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk

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

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

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

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, liquidity gap ratio, and etc.

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 RISK MANAGEMENT (CONTINUED)

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

##### (1) Maturity analysis

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

|   | 30 June 2018      |                        |                                       |  |  |                         | Total              |
|---|-------------------|------------------------|---------------------------------------|--|--|-------------------------|--------------------|
|   | Indefinite        | Repayable<br>on demand | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between one<br>year and<br>five years<br>(inclusive) | More than<br>five years |                    |
| <b>Assets</b>   |                   |                        |                                       |  |  |                         |                    |
| Cash and deposits with central bank                             | 30,058,560        | 15,794,989             | -                                     | -  | -  | -                       | 45,853,549         |
| Deposits/placements with banks and other financial institutions | 5,000             | 1,485,340              | 4,630,427                             | 2,416,637  | 83,399   | -                       | 8,620,803          |
| Financial assets held under resale agreements                   | -                 | -                      | 10,141,078                            | -  | -  | -                       | 10,141,078         |
| Loans and advances to customers                                 | 2,991,351         | 2,291,181              | 15,480,855                            | 65,214,894   | 27,555,183   | 21,292,594              | 134,826,058        |
| Investments   | 1,612,235         | 1,338,767              | 22,112,032                            | 50,413,630   | 107,714,183  | 40,288,528              | 223,479,375        |
| Finance lease receivables                                       | -                 | 458,831                | 886,009                               | 3,077,376  | 8,890,196  | 21,612                  | 13,334,024         |
| Others  | 2,449,579         | 4,244                  | 3,066,960                             | 1,675,438  | 183,532  | 1,390                   | 7,381,143          |
| <b>Total assets</b>   | <b>37,116,725</b> | <b>21,373,352</b>      | <b>56,317,361</b>                     | <b>122,797,975</b>                                     | <b>144,426,493</b>                                   | <b>61,604,124</b>       | <b>443,636,030</b> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (1) Maturity analysis (Continued)

|   | 30 June 2018 |                     |                                 |   |   |                      | Total       |
|---|--------------|---------------------|---------------------------------|---|---|----------------------|-------------|
|   | Indefinite   | Repayable on demand | Within three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |             |
| <b>Liabilities</b>  |              |                     |                                 |   |   |                      |             |
| Due to central bank   | -            | -                   | 28,000                          | 1,571,000                                     | -   | -                    | 1,599,000   |
| Deposits/placements from banks and other financial institutions | -            | 350,978             | 15,338,391                      | 29,733,818                                    | 400,000                                     | -                    | 45,823,187  |
| Financial assets sold under repurchase agreements               | -            | -                   | 19,724,750                      | -   | -   | -                    | 19,724,750  |
| Deposits from customers   | -            | 114,680,615         | 36,487,951                      | 59,100,712                                    | 44,040,187                                  | 8,803,260            | 263,112,725 |
| Debt securities issued  | -            | -                   | 21,725,974                      | 39,646,635                                    | 9,994,767                                   | -                    | 71,367,376  |
| Others  | -            | 574,910             | 5,092,446                       | 428,569                                       | 921,070                                     | 101,438              | 7,118,433   |
| <b>Total liabilities</b>  | -            | 115,606,503         | 98,397,512                      | 130,480,734                                   | 55,356,024                                  | 8,904,698            | 408,745,471 |
| Long/(short) position   | 37,116,725   | (94,233,151)        | (42,080,151)                    | (7,682,759)                                   | 89,070,469                                  | 52,699,426           | 34,890,559  |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (1) Maturity analysis (Continued)

|   | 31 December 2017  |                        |                                       |  |  |                         | Total              |
|---|-------------------|------------------------|---------------------------------------|--|--|-------------------------|--------------------|
|   | Indefinite        | Repayable<br>on demand | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between<br>one year and<br>five years<br>(inclusive) | More than<br>five years |                    |
| <b>Assets</b>   |                   |                        |                                       |  |  |                         |                    |
| Cash and deposits with central bank                             | 32,743,934        | 12,891,198             | -                                     | -  | -  | -                       | 45,635,132         |
| Deposits/placements with banks and other financial institutions | 5,000             | 1,174,854              | 7,494,090                             | 11,339,733   | 7,500  | -                       | 20,021,177         |
| Financial assets held under resale agreements                   | -                 | -                      | 4,407,476                             | -  | -  | -                       | 4,407,476          |
| Loans and advances to customers                                 | 4,119,917         | 2,368,855              | 18,378,439                            | 61,055,985   | 23,270,331   | 15,262,415              | 124,455,942        |
| Investments   | 456,231           | 2,364,529              | 27,264,071                            | 42,709,660   | 102,969,192  | 47,190,754              | 222,954,437        |
| Finance lease receivables                                       | -                 | -                      | 573,671                               | 2,422,037  | 7,470,691  | 24,595                  | 10,490,994         |
| Others  | 3,620,768         | 36,288                 | 2,201,026                             | 1,820,802  | 167,913  | 16,932                  | 7,863,729          |
| <b>Total assets</b>   | <b>40,945,850</b> | <b>18,835,724</b>      | <b>60,318,773</b>                     | <b>119,348,217</b>                                     | <b>133,885,627</b>                                   | <b>62,494,696</b>       | <b>435,828,887</b> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (1) Maturity analysis (Continued)

|   | 31 December 2017 |                     |                                 |   |   |                      | Total       |
|---|------------------|---------------------|---------------------------------|---|---|----------------------|-------------|
|   | Indefinite       | Repayable on demand | Within three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |             |
| <b>Liabilities</b>  |                  |                     |                                 |   |   |                      |             |
| Due to central bank   | -                | -                   | 1,000,000                       | 599,550                                       | -   | -                    | 1,599,550   |
| Deposits/placements from banks and other financial institutions | -                | 676,366             | 13,498,100                      | 37,008,289                                    | 100,000                                     | -                    | 51,282,755  |
| Financial assets sold under repurchase agreements               | -                | -                   | 14,085,500                      | -   | -   | -                    | 14,085,500  |
| Deposits from customers   | -                | 111,125,769         | 36,702,622                      | 59,072,808                                    | 48,506,199                                  | -                    | 255,407,398 |
| Debt securities issued  | -                | -                   | 20,590,717                      | 42,585,365                                    | 9,993,978                                   | -                    | 73,170,060  |
| Others  | -                | 332,480             | 5,419,627                       | 348,676                                       | 627,509                                     | 115,967              | 6,844,259   |
| <b>Total liabilities</b>  | -                | 112,134,615         | 91,296,566                      | 139,614,688                                   | 59,227,686                                  | 115,967              | 402,389,522 |
| <b>Long/(short) position</b>                                    | 40,945,850       | (93,298,891)        | (30,977,793)                    | (20,266,471)                                  | 74,657,941                                  | 62,378,729           | 33,439,365  |

(i) As at 31 December 2017, investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial investments classified as loans and receivables and interest in associates. The “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

As at 30 June 2018, investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost and interest in associates. The “indefinite” period amount represents the balance being credit-impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not credit-impaired is included in “repayable on demand”.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

#### (1) Maturity analysis (Continued)

(iii) For loans and advances to customers, as at 31 December 2017, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”; as at 30 June 2018, the “indefinite” period amount represents the balance being credit-impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not credit-impaired is included in “repayable on demand”.

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

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

|  | 30 June 2018                     |                    |                        |                                       |  |  |                         |
|--|----------------------------------|--------------------|------------------------|---------------------------------------|--|--|-------------------------|
|  | Carrying<br>amount at<br>30 June | Total              | Repayable<br>on demand | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between one<br>year and<br>five years<br>(inclusive) | More than<br>five years |
| Non-derivative cash flows:   |                                  |                    |                        |                                       |  |  |                         |
| Due to central bank  | 1,599,000                        | 1,599,719          | -                      | 28,131                                | 1,571,588  | -  | -                       |
| Deposits/placements from banks<br>and other financial institutions           | 45,823,187                       | 47,560,194         | 351,217                | 15,806,212                            | 30,978,968   | 423,797  | -                       |
| Financial assets sold under<br>repurchase agreements                         | 19,724,750                       | 19,746,513         | -                      | 19,746,513                            | -  | -  | -                       |
| Deposits from customers  | 263,112,725                      | 276,455,801        | 114,723,494            | 37,203,301                            | 61,580,274   | 51,640,056   | 11,308,676              |
| Debt securities issued   | 71,367,376                       | 74,040,967         | -                      | 21,972,870                            | 41,007,730   | 11,060,367   | -                       |
| <b>Total non-derivative financial<br/>liabilities</b>                        | <b>401,627,038</b>               | <b>419,403,194</b> | <b>115,074,711</b>     | <b>94,757,027</b>                     | <b>135,138,560</b>                                     | <b>63,124,220</b>                                    | <b>11,308,676</b>       |
| Derivative cash flows:   |                                  |                    |                        |                                       |  |  |                         |
| Derivative financial instruments<br>settled on net basis                     | 37,258                           | 37,258             | -                      | -                                     | 37,258   | -  | -                       |
| Derivative financial instruments<br>settled on gross basis:                  |                                  |                    |                        |                                       |  |  |                         |
| - Cash inflow  | (674,819)                        | (683,275)          | -                      | -                                     | (683,275)  | -  | -                       |
| - Cash outflow   | 682,598                          | 693,680            | -                      | -                                     | 693,680  | -  | -                       |
| <b>Total derivative financial<br/>instruments settled on gross<br/>basis</b> | <b>7,779</b>                     | <b>10,405</b>      | <b>-</b>               | <b>-</b>                              | <b>10,405</b>  | <b>-</b>   | <b>-</b>                |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

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

|  | 31 December 2017                |                    |                        |                                       |  |  |                         |
|--|---------------------------------|--------------------|------------------------|---------------------------------------|--|--|-------------------------|
|  | Carrying<br>amount at<br>31 Dec | Total              | Repayable<br>on demand | Within<br>three months<br>(inclusive) | Between<br>three months<br>and one year<br>(inclusive) | Between one<br>year and<br>five years<br>(inclusive) | More than<br>five years |
| Non-derivative cash flows:   |                                 |                    |                        |                                       |  |  |                         |
| Due to central bank  | 1,599,550                       | 1,599,807          | -                      | 1,000,134                             | 599,673  | -  | -                       |
| Deposits/placements from banks<br>and other financial institutions           | 51,282,755                      | 53,264,632         | 676,512                | 13,937,277                            | 38,543,829   | 107,014  | -                       |
| Financial assets sold under<br>repurchase agreements                         | 14,085,500                      | 14,121,581         | -                      | 14,121,581                            | -  | -  | -                       |
| Deposits from customers  | 255,407,398                     | 268,036,084        | 111,166,502            | 38,793,599                            | 61,730,805   | 56,345,178   | -                       |
| Debt securities issued   | 73,170,060                      | 76,110,978         | -                      | 20,796,000                            | 44,159,400   | 11,155,578   | -                       |
| <b>Total non-derivative financial<br/>liabilities</b>                        | <b>395,545,263</b>              | <b>413,133,082</b> | <b>111,843,014</b>     | <b>88,648,591</b>                     | <b>145,033,707</b>                                     | <b>67,607,770</b>                                    | <b>-</b>                |
| Derivative cash flows:   |                                 |                    |                        |                                       |  |  |                         |
| Derivative financial instruments<br>settled on net basis                     | 21,014                          | 21,014             | -                      | -                                     | 21,014   | -  | -                       |
| Derivative financial instruments<br>settled on gross basis:                  |                                 |                    |                        |                                       |  |  |                         |
| - Cash inflow  | (659,882)                       | (682,115)          | -                      | -                                     | (682,115)  | -  | -                       |
| - Cash outflow   | 671,178                         | 693,680            | -                      | -                                     | 693,680  | -  | -                       |
| <b>Total derivative financial<br/>instruments settled on gross<br/>basis</b> | <b>11,296</b>                   | <b>11,565</b>      | <b>-</b>               | <b>-</b>                              | <b>11,565</b>  | <b>-</b>   | <b>-</b>                |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (d) Operational risk

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

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

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

- making use of risk alert system and paying attention to risk product and early risk alert on each aspect of business; making business risk assessment in time; carrying out centralised risk management on major business controlling unit so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralized operational risk management tools, supervising, analysing and reporting the sufficiency and effectiveness of operational risk management;
- the Compliance Department, the Risk Management Department and the Internal Audit Office constitute “three lines of defense” for operational risk management base on the separating responsibilities of the front, middle and the back offices. The Business and functional departments act as the first line of defense, the Compliance Department and the Risk Management Department act as the second line of defense and the Internal Audit Office acts as the third line of defense;
- establishing a compulsory leave and rotation policies to staff in key position or important process;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (e) Capital management

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

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

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

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

The Group calculates the capital adequacy ratios as at 30 June 2018 and 31 December 2017 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法) issued by the former CBRC in 2012 and relevant requirements promulgated by the CBIRC as follows:

|                                       | Note | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---------------------------------------|------|-------------------------|---------------------|
| Total core tier-one capital           |      |                         |                     |
| – Share capital                       |      | <b>5,321,932</b>        | 5,321,932           |
| – Valid portion of capital reserve    |      | <b>2,999,933</b>        | 2,979,588           |
| – Surplus reserve                     |      | <b>2,054,756</b>        | 2,054,756           |
| – General reserve                     |      | <b>5,520,320</b>        | 5,520,320           |
| – Retained earnings                   |      | <b>9,979,535</b>        | 8,503,783           |
| – Valid portion of minority interests |      | <b>578,209</b>          | 452,798             |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 RISK MANAGEMENT (CONTINUED)

#### (e) Capital management (Continued)

|   | Note | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---|------|-------------------------|---------------------|
| Core tier-one capital   |      | <b>26,454,685</b>       | 24,833,177          |
| Core tier-one capital deductions                              |      | <b>(513,472)</b>        | (456,513)           |
| Net core tier-one capital                                     |      | <b>25,941,213</b>       | 24,376,664          |
| Additional tier-one capital                                   |      |                         |                     |
| – Additional tier-one capital instruments and related premium |      | <b>7,825,508</b>        | 7,825,508           |
| – Valid portion of minority interests                         |      | <b>75,412</b>           | 60,373              |
| Net tier-one capital  |      | <b>33,842,133</b>       | 32,262,545          |
| Tier two capital  |      |                         |                     |
| – Qualifying portions of tier-two capital instruments issued  |      | <b>7,000,000</b>        | 7,000,000           |
| – Surplus provision for loan impairment                       |      | <b>1,787,382</b>        | 2,231,162           |
| – Valid portion of minority interests                         |      | <b>153,005</b>          | 120,746             |
| Net tier-two capital  |      | <b>8,940,387</b>        | 9,351,908           |
| Net capital base  |      | <b>42,782,520</b>       | 41,614,453          |
| Total risk weighted assets                                    | (1)  | <b>332,079,828</b>      | 307,474,718         |
| Core tier-one capital adequacy ratio                          |      | <b>7.81%</b>            | 7.93%               |
| Tier-one capital adequacy ratio                               |      | <b>10.19%</b>           | 10.49%              |
| Capital adequacy ratio  |      | <b>12.88%</b>           | 13.53%              |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39 RISK MANAGEMENT (CONTINUED)

### (e) Capital management (Continued)

- (1) Both the on-balance and off-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty as well as any eligible collateral or guarantees.
- (2) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the CBIRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.5%, 8.5% and 7.5% at 30 June 2018 and 10.1%, 8.1% and 7.1% at 31 December 2017.

## 40 FAIR VALUE

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

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

Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: Fair value measured using significant unobservable inputs

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 40 FAIR VALUE (CONTINUED)

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

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

#### (1) *Debt securities investments*

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

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

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 FAIR VALUE (CONTINUED)

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

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

|   | 30 June 2018     |                   |                   | Total             |
|---|------------------|-------------------|-------------------|-------------------|
|   | Level 1          | Level 2           | Level 3           |                   |
| Assets measured at fair value on a recurring basis  |                  |                   |                   |                   |
| Financial investments at fair value through profit or loss                                |                  |                   |                   |                   |
| – Debt securities   | 2,812,412        | 6,412,978         | –                 | 9,225,390         |
| – Investment funds  | –                | 3,236,196         | –                 | 3,236,196         |
| – Other financial investments at fair value through profit or loss                        | –                | –                 | 44,487,219        | 44,487,219        |
| Financial investments at fair value through other comprehensive income                    |                  |                   |                   |                   |
| – Debt instruments  | 585,179          | 804,804           | –                 | 1,389,983         |
| Loans and advances to customers measured at fair value through other comprehensive income |                  |                   |                   |                   |
| – Corporate loans and advances  | –                | –                 | 5,206,457         | 5,206,457         |
| Derivative financial assets   | –                | 67,385            | –                 | 67,385            |
| <b>Total</b>  | <b>3,397,591</b> | <b>10,521,363</b> | <b>49,693,676</b> | <b>63,612,630</b> |
| Liabilities measured at fair value on a recurring basis                                   |                  |                   |                   |                   |
| Derivative financial liabilities  | –                | 45,037            | –                 | 45,037            |
| <b>Total</b>  | <b>–</b>         | <b>45,037</b>     | <b>–</b>          | <b>45,037</b>     |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 FAIR VALUE (CONTINUED)

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

|  | 31 December 2017 |                   |                   | Total             |
|--|------------------|-------------------|-------------------|-------------------|
|  | Level 1          | Level 2           | Level 3           |                   |
| Recurring fair value measurements assets                   |                  |                   |                   |                   |
| Financial investments at fair value through profit or loss |                  |                   |                   |                   |
| – Debt securities  | 1,060,078        | 1,091,487         | –                 | 2,151,565         |
| – Investment funds   | –                | 3,755,820         | –                 | 3,755,820         |
| – Investment management products                           | –                | 5,941,912         | –                 | 5,941,912         |
| Available-for-sale financial assets                        |                  |                   |                   |                   |
| – Debt instruments   | –                | 2,799,831         | 32,278,067        | 35,077,898        |
| <b>Total</b>   | <b>1,060,078</b> | <b>13,589,050</b> | <b>32,278,067</b> | <b>46,927,195</b> |
| Liabilities measured at fair value on a recurring basis    |                  |                   |                   |                   |
| Derivative financial liabilities                           | –                | 32,310            | –                 | 32,310            |
| <b>Total</b>   | <b>–</b>         | <b>32,310</b>     | <b>–</b>          | <b>32,310</b>     |

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31 December 2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 40 FAIR VALUE (CONTINUED)

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

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

|   | 1 January<br>2018 | Changes in<br>accounting<br>policies | Total effects<br>of profit and<br>loss during<br>the period | Total effects<br>of other<br>comprehensive<br>income during<br>the period | Acquisition       | Sales/<br>Settlement | Transferred<br>from Level<br>2 to Level 3 | 30 June<br>2018   |
|---|-------------------|--------------------------------------|---|---|-------------------|----------------------|---|-------------------|
| Financial assets:   |                   |                                      |   |   |                   |                      |   |                   |
| Available-for-sale financial assets   |                   |                                      |   |   |                   |                      |   |                   |
| – Debt instruments  | 32,278,067        | (32,278,067)                         | -   | -   | -                 | -                    | -   | -                 |
| Financial investments measured at<br>fair value through profit or loss                          |                   |                                      |   |   |                   |                      |   |                   |
| – Other interbank investment  | -                 | 41,477,107                           | 1,476,654   | -   | 19,315,905        | (17,782,447)         | -   | 44,487,219        |
| Loans and advances to customers<br>measured at fair value through<br>other comprehensive income | -                 | 2,473,540                            | 13,100  | (9,867)   | 4,714,750         | (1,985,066)          | -   | 5,206,457         |
| <b>Total</b>  | <b>32,278,067</b> | <b>11,672,580</b>                    | <b>1,489,754</b>  | <b>(9,867)</b>  | <b>24,030,655</b> | <b>(19,767,513)</b>  | <b>-</b>                                  | <b>49,693,676</b> |

|                                     | 1 January 2017 | Total gains<br>recorded in<br>profit or loss | Total gains<br>recorded in other<br>comprehensive<br>income | Additions  | Disposals/<br>Settlements | Transfers to<br>Level 2 from<br>Level 3 | 31 December<br>2017 |
|-------------------------------------|----------------|--|---|------------|---------------------------|---|---------------------|
| Financial assets:                   |                |  |   |            |                           |   |                     |
| Available-for-sale financial assets |                |  |   |            |                           |   |                     |
| – Debt instruments                  | 4,972,113      | 565,011                                      | (1,245)   | 31,419,845 | (4,677,657)               | -                                       | 32,278,067          |

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

During the reporting period, total gains recorded in profit or loss is recognised in the line item “net gains arising from investments” on the face of the consolidated statement of profit or loss and other comprehensive income (31 December 2017: “interest income”).

NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

**40 FAIR VALUE (CONTINUED)**

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

|   | 30 June 2018       |                   |                   |                   |          |
|---|--------------------|-------------------|-------------------|-------------------|----------|
|   | Carrying<br>amount | Fair value        | Level 1           | Level 2           | Level 3  |
| <b>Financial assets</b>                             |                    |                   |                   |                   |          |
| Financial investments<br>measured at amortised cost | 55,792,533         | 54,207,202        | 19,646,100        | 34,561,102        | –        |
| <b>Total</b>  | <b>55,792,533</b>  | <b>54,207,202</b> | <b>19,646,100</b> | <b>34,561,102</b> | <b>–</b> |
| <b>Financial liabilities</b>                        |                    |                   |                   |                   |          |
| Debt securities issued                              |                    |                   |                   |                   |          |
| – Financial bonds                                   | 2,997,169          | 3,009,945         | –                 | 3,009,945         | –        |
| – Tier-two capital bonds                            | 6,997,598          | 6,899,325         | –                 | 6,899,325         | –        |
| – Interbank deposits                                | 61,372,609         | 60,204,368        | –                 | 60,204,368        | –        |
| <b>Total</b>  | <b>71,367,376</b>  | <b>70,113,638</b> | <b>–</b>          | <b>70,113,638</b> | <b>–</b> |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 40 FAIR VALUE (CONTINUED)

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

|                              | 31 December 2017  |                   |                   |                   |          |
|------------------------------|-------------------|-------------------|-------------------|-------------------|----------|
|                              | Carrying amount   | Fair value        | Level 1           | Level 2           | Level 3  |
| <b>Financial assets</b>      |                   |                   |                   |                   |          |
| Held-to-maturity investments | 59,267,821        | 55,578,966        | 20,946,683        | 34,632,283        | –        |
| <b>Total</b>                 | <b>59,267,821</b> | <b>55,578,966</b> | <b>20,946,683</b> | <b>34,632,283</b> | <b>–</b> |
| <b>Financial liabilities</b> |                   |                   |                   |                   |          |
| Debt securities issued       |                   |                   |                   |                   |          |
| – Financial bonds            | 5,596,521         | 5,539,835         | –                 | 5,539,835         | –        |
| – Tier-two capital bonds     | 6,997,457         | 6,754,825         | –                 | 6,754,825         | –        |
| – Interbank deposits         | 60,576,082        | 59,282,743        | –                 | 59,282,743        | –        |
| <b>Total</b>                 | <b>73,170,060</b> | <b>71,577,403</b> | <b>–</b>          | <b>71,577,403</b> | <b>–</b> |

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

The fair values of debt securities in financial investments measured at amortised cost and debt securities issued are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 FAIR VALUE (CONTINUED)

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

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

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

### 41 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Credit commitments

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

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

|                                | 30 June<br>2018   | 31 December<br>2017 |
|--------------------------------|-------------------|---------------------|
| Bank acceptances               | 58,991,769        | 57,538,871          |
| Letters of credit              | 7,335,369         | 5,264,644           |
| Guarantees                     | 4,662,526         | 3,986,890           |
| Unused credit card commitments | 1,376,115         | 1,275,828           |
| <b>Total</b>                   | <b>72,365,779</b> | <b>68,066,233</b>   |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

### (a) Credit commitments (Continued)

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

### (b) Credit risk-weighted amount

|   | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|---|-------------------------|---------------------|
| Credit risk-weighted amount of contingent liabilities and commitments | <b>16,020,099</b>       | 18,630,228          |

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

### (c) Operating lease commitments

As at 30 June 2018 and 31 December 2017, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

|  | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|--|-------------------------|---------------------|
| Within one year (inclusive)                      | <b>122,726</b>          | 118,008             |
| After one year but within five years (inclusive) | <b>280,815</b>          | 292,948             |
| After five years                                 | <b>152,998</b>          | 197,228             |
| Total  | <b>556,539</b>          | 608,184             |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### (d) Capital commitments

As at 30 June 2018 and 31 December 2017, the authorised capital commitments of the Group are as follows:

|                                 | 30 June<br>2018 | 31 December<br>2017 |
|---------------------------------|-----------------|---------------------|
| Contracted but not paid for     | 216,286         | 207,346             |
| Approved but not contracted for | 166,084         | 49,956              |
| <b>Total</b>                    | <b>382,370</b>  | 257,302             |

#### (e) Outstanding litigations and disputes

As at 30 June 2018 and 31 December 2017, there are no outstanding legal proceedings that have a significant impact on the financial statements against the Group.

#### (f) Pledged assets

|                 | 30 June<br>2018   | 31 December<br>2017 |
|-----------------|-------------------|---------------------|
| Debt securities | 18,864,620        | 13,281,523          |
| <b>Total</b>    | <b>18,864,620</b> | 13,281,523          |

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2018 and 31 December 2017 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

|  | 30 June 2018    |                  |
|--|-----------------|------------------|
|  | Carrying amount | Maximum exposure |
| Financial investments  |                 |                  |
| – Financial investments at fair value through profit or loss | 43,365,029      | 43,365,029       |
| – Financial investments measured at amortised cost           | 92,805,008      | 92,805,008       |
| Interest receivables   | 259,573         | 259,573          |
| Total  | 136,429,610     | 136,429,610      |

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

|  | 31 December 2017   |                    |
|--|--------------------|--------------------|
|  | Carrying amount    | Maximum exposure   |
| Financial investments  |                    |                    |
| – Financial investments at fair value through profit or loss | 9,697,732          | 9,697,732          |
| – Available-for-sale financial assets                        | 28,044,753         | 28,044,753         |
| – Financial investment classified as loans and receivables   | 102,127,230        | 102,127,230        |
| Interest receivables   | 683,308            | 683,308            |
| <b>Total</b>   | <b>140,553,023</b> | <b>140,553,023</b> |

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

The interest income, changes in fair value and investment gains arising from the above unconsolidated structured entities for the period ended 30 June 2018 amounted to RMB3,976 million (the six months ended 30 June 2017: RMB2,879 million).

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

The types of unstructured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

As at 30 June 2018, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB34,036 million (31 December 2017: RMB37,501 million).

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

During the six months ended 30 June 2018, the amount of fee and commission income received from the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding period is RMB7 million (the six months ended 30 June 2017: RMB4 million).

During the six months ended 30 June 2018, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding period is RMB5,027 million (the six months ended 30 June 2017: RMB4,800 million).

### 43 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 30 June 2018, the entrusted loans balance of the Group is RMB7,354 million (31 December 2017: RMB8,375 million).

### 44 SUBSEQUENT EVENTS

On 27 July 2018, the China Securities Regulatory Commission approved the Bank's application of A share Initial Public Offering. The Bank plans to issue no more than 600,000,000 shares, and the number of shares issued finally will be determined by the capital requirements of the Bank, the market conditions at the time of issuance, and the communication between the Bank and the regulatory agency, etc.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

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

## 1 LIQUIDITY COVERAGE RATIOS AND LEVERAGE RATIO

|   | <b>30 June<br/>2018</b> | <b>Average for<br/>the period ended<br/>30 June 2018</b> |
|---|-------------------------|--|
| Liquidity coverage ratio (RMB and foreign currency) | <b>199.49%</b>          | <b>177.67%</b>   |

|   | Average for<br>the year ended<br>31 December 2017 | 31 December 2017 |
|---|---|------------------|
| Liquidity coverage ratio (RMB and foreign currency) | 189.22%   | 225.23%          |

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 70%, 80% and 90% by the end of 2015, 2016 and 2017, respectively.

|                | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|----------------|-------------------------|---------------------|
| Leverage ratio | <b>6.49%</b>            | 6.30%               |

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 2 CURRENCY CONCENTRATIONS

|                  | 30 June 2018                   |                                |                            |                           |
|------------------|--------------------------------|--------------------------------|----------------------------|---------------------------|
|                  | US Dollars<br>(RMB equivalent) | HK Dollars<br>(RMB equivalent) | Others<br>(RMB equivalent) | Total<br>(RMB equivalent) |
| Spot assets      | 15,888,921                     | 431,615                        | 8,047                      | 16,328,583                |
| Spot liabilities | (8,839,158)                    | (485,872)                      | (85,575)                   | (9,410,605)               |
| Net position     | 7,049,763                      | (54,257)                       | (77,528)                   | 6,917,978                 |

|                  | 31 December 2017               |                                |                            |                           |
|------------------|--------------------------------|--------------------------------|----------------------------|---------------------------|
|                  | US Dollars<br>(RMB equivalent) | HK Dollars<br>(RMB equivalent) | Others<br>(RMB equivalent) | Total<br>(RMB equivalent) |
| Spot assets      | 25,892,084                     | 424,571                        | 84,832                     | 26,401,487                |
| Spot liabilities | (16,547,425)                   | (481,548)                      | (78,598)                   | (17,107,571)              |
| Net position     | 9,344,659                      | (56,977)                       | 6,234                      | 9,293,916                 |

The Group has no structural position at the reporting periods.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 INTERNATIONAL CLAIMS

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

International claims include loans and advances to customers, amounts due from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

|  | 30 June 2018                                 |                           |           |           |
|--|--|---------------------------|-----------|-----------|
|  | Banks and<br>other financial<br>institutions | Public<br>sector entities | Others    | Total     |
| Asia Pacific excluding mainland<br>China | 462,371                                      | –                         | 530,093   | 992,464   |
| North and South America                  | 180,467                                      | –                         | –         | 180,467   |
| Europe                                   | 88,887                                       | –                         | –         | 88,887    |
|  | 731,725                                      | –                         | 530,093   | 1,261,818 |
|  | 31 December 2017                             |                           |           |           |
|  | Banks and<br>Other financial<br>institutions | Public<br>sector entities | Others    | Total     |
| Asia Pacific excluding mainland<br>China | 4,103,554                                    | 14,591                    | 1,040,709 | 5,158,854 |
| North and South America                  | 162,237                                      | –                         | –         | 162,237   |
| Europe                                   | 81,826                                       | –                         | –         | 81,826    |
|  | 4,347,617                                    | 14,591                    | 1,040,709 | 5,402,917 |

UNAUDITED SUPPLEMENTARY  
FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

**4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES**

|  | <b>30 June<br/>2018</b> | 31 December<br>2017 |
|--|-------------------------|---------------------|
| Gross loans and advances which have been overdue with respect to either principal or interest for periods of |                         |                     |
| – between 3 and 6 months (inclusive)   | <b>820,323</b>          | 1,074,269           |
| – between 6 months and 1 year (inclusive)  | <b>1,320,076</b>        | 1,102,103           |
| – over 1 year  | <b>1,734,390</b>        | 1,119,103           |
| <b>Total</b>   | <b>3,874,789</b>        | 3,295,475           |
| As a percentage of total gross loans and advances  |                         |                     |
| – between 3 and 6 months (inclusive)   | <b>0.59%</b>            | 0.84%               |
| – between 6 months and 1 year (inclusive)  | <b>0.95%</b>            | 0.85%               |
| – over 1 year  | <b>1.25%</b>            | 0.87%               |
| <b>Total</b>   | <b>2.79%</b>            | 2.56%               |

# DEFINITIONS

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

|   |   |
|---|---|
| “Articles of Association”               | the articles of association of the Bank, as amended from time to time   |
| “A Share(s)”                            | ordinary share(s) to be issued by the Bank pursuant to the A Share Offering and subscribed for in RMB   |
| “A Share Offering”                      | the Bank’s initial public offering of not more than 600,000,000 A Shares, which will be listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange  |
| “Bank”, “Bank of Zhengzhou”,<br>or “We” | Bank of Zhengzhou Co., Ltd*. (鄭州銀行股份有限公司*), a joint stock company incorporated in the PRC with limited liability on November 16, 1996 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches |
| “Board” or “Board of Directors”         | the board of Directors of the Bank  |
| “Board of Supervisors”                  | the board of Supervisors of the Bank  |
| “CBIRC”                                 | China Banking and Insurance Regulatory Commission, which was officially listed for operation on April 8, 2018 and consolidated by the Former CBRC and the former China Insurance Regulatory Commission  |
| “CBIRC Henan Bureau”                    | China Banking and Insurance Regulatory Commission Henan Office  |
| “CSRC”                                  | China Securities Regulatory Commission  |
| “Director(s)”                           | the director(s) of the Bank   |
| “Domestic Share(s)”                     | ordinary Share(s) issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi  |
| “Former CBRC”                           | the former China Banking Regulatory Commission  |

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

## DEFINITIONS (CONTINUED)

|                                     |  |
|-------------------------------------|--|
| “Former CBRC Henan Bureau”          | the former China Banking Regulatory Commission Henan Office  |
| “H Share(s)”                        | overseas-listed Share(s) in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed and traded on the Main Board of the Hong Kong Stock Exchange |
| “HK\$”                              | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                         | the Hong Kong Special Administrative Region of the PRC   |
| “Hong Kong Stock Exchange”          | The Stock Exchange of Hong Kong Limited  |
| “Jiuding Financial Leasing Company” | Henan Jiuding Financial Leasing Co., Ltd. (河南九鼎金融租賃股份有限公司)   |
| “Listing Rules”                     | the Rules Governing the Listing of Securities on Hong Kong Stock Exchange  |
| “Macau”                             | the Macau Special Administrative Region of the PRC   |
| “Offshore Preference Shares”        | 59,550,000 shares of non-cumulative perpetual offshore preference shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange     |
| “PBoC” or “Central Bank”            | the People’s Bank of China   |
| “PRC” or “China”                    | the People’s Republic of China, and for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan   |
| “Reporting Period”                  | six months ended for the period from January 1, 2018 to June 30, 2018  |

## DEFINITIONS (CONTINUED)

|                     |   |
|---------------------|---|
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC  |
| “SFO”               | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time |
| “Shareholder(s)”    | the shareholder(s) of the Bank  |
| “Shares”            | the Domestic Shares and the H Shares  |
| “Supervisor(s)”     | the supervisor(s) of the Bank   |
| “2017 AGM”          | the annual general meeting of the Bank convened on June 15, 2018  |



郑州银行

BANK OF ZHENGZHOU