中原銀行股份有限公司

ZHONGYUAN BANK CO., LTD.

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

Stock Code: 1216

2018
INTERIM REPORT

Content

Corporate Information

Legal Name of the Company
中原銀行股份有限公司*
(abbreviated as 中原銀行)

English Name of the Company
ZHONGYUAN BANK CO., LTD.*
(abbreviated as ZYBANK)

Registered Office
Zhongke Golden Tower,
No. 23 Shangwu Waihuan Road,
Zhengdong New District CBD,
Zhengzhou, Henan Province, PRC

Headquarters in China
Zhongke Golden Tower,
No. 23 Shangwu Waihuan Road,
Zhengdong New District CBD,
Zhengzhou, Henan Province, PRC

Principal Business Place in Hong Kong
40/F, Sunlight Tower,
No. 248 Queen's Road East,
Wanchai, Hong Kong

Board of Directors

Executive Directors:
Mr. DOU Rongxing (Chairperson)
Mr. WANG Jiong
Mr. LI Yulin
Mr. WEI Jie

Non-Executive Directors:
Mr. LI Qiaocheng
Mr. LI Xipeng
Mr. MI Hongjun

Independent non-Executive Directors:
Ms. PANG Hong
Mr. LI Hongchang
Mr. JIA Tingyu
Mr. CHAN Ngai Sang Kenny

Legal Representative
Mr. DOU Rongxing

Authorized Representatives
Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries
Mr. ZHANG Ke
Ms. LEUNG Wing Han Sharon

Unified Social Credit Code
9141000031741675X6

Financial Licence Institution Number
B0615H241010001

Auditors

PRC Auditor
KPMG Huazhen LLP
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Oriental Plaza,
1 East Chang'an Avenue,
Beijing, PRC

International Auditor
KPMG
8/F, Prince's Building,
10 Chater Road, Central,
Hong Kong

Legal Advisors

Legal Advisor as to PRC Laws
King & Wood Mallesons
20/F, East Tower,
World Financial Center,
1 Dongsanhuan Zhonglu,
Chaoyang District,
Beijing, PRC

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

Legal Advisor as to Hong Kong Laws
Paul Hastings
21-22/F, Bank of China Tower,
1 Garden Road, Hong Kong

Compliance Advisor
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Computershare Hong Kong Investor Services Limited
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183 Queen's Road East, Wanchai,
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Trustee Agency for Domestic Shares
China Securities Depository and Clearing Corporation Limited
23rd Floor, Tower B,
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No. 27 Financial Street,
Xicheng District, Beijing

Stock Code
1216

Investor's Enquiry

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Summary of Accounting Data and Financial Indicators

	For the six months ended June 30 2018	2017	Change over the corresponding period of last year
	(in millions of RMB, except percentages)		
Operating results			**Rate of change (%)**
Net interest income	**6,406.9**	5,613.6	14.1
Net fee and commission income	**643.1**	276.1	132.9
Operating income	**7,581.9**	5,875.8	29.0
Operating expenses	**(2,875.7)**	(2,359.2)	21.9
Impairment losses on assets	**(2,288.6)**	(1,278.5)	79.0
Profit before tax	**2,417.6**	2,238.1	8.0
Net profit	**1,888.3**	1,747.6	8.1
Net profit attributable to equity shareholders of the Bank	**1,851.5**	1,718.5	7.7
Expressed in per share (in RMB)			**Rate of change (%)**
Net assets per share attributable to equity shareholders of the Bank	**2.21**	2.18	1.4
Earnings per share	**0.09**	0.10	(10.0)
Profitability indicators (%)			**Change**
Return on average total assets(1)	**0.71**	0.78	(0.07)
Return on average equity(2)	**8.27**	9.63	(1.36)
Net interest spread(3)	**2.48**	2.63	(0.15)
Net interest margin(4)	**2.62**	2.80	(0.18)
Net fee and commission income to operating income	**8.48**	4.70	3.78
Cost-to-income ratio(5)	**37.05**	39.29	(2.24)

Summary of Accounting Data and Financial Indicators

	As of June 30, 2018	As of December 31, 2017	Change over the end of last year
	(in millions of RMB, except percentages)		
Capital adequacy ratio indicators (%)[(6)]			**Change**
Calculated based on the Administrative Measures for the Capital of Commercial Banks			
Core tier-one capital adequacy ratio	**10.74**	12.15	(1.41)
Tier-one capital adequacy ratio	**10.75**	12.16	(1.41)
Capital adequacy ratio	**11.59**	13.15	(1.56)
Total equity to total assets	**8.28**	8.83	(0.55)
Asset quality indicators			**Change**
Non-performing loan ratio[(7)]	**1.88**	1.83	0.05
Allowance coverage ratio[(8)]	**180.83**	197.50	(16.67)
Allowance to gross loan ratio[(9)]	**3.40**	3.62	(0.22)
Other indicators (%)			**Change**
Loan-to-deposit ratio	**64.59**	64.85	(0.26)
Scale indicators			**Rate of change (%)**
Total assets	**545,036.3**	521,989.8	4.4
Of which: net loans to customers	**211,565.5**	191,708.8	10.4
Total liabilities	**499,922.2**	475,899.2	5.0
Of which: deposits from customers	**338,859.4**	306,708.3	10.5
Share capital	**20,075.0**	20,075.0	–
Equity attributable to shareholders of the Bank	**44,265.6**	45,268.9	(2.2)
Non-controlling interests	**848.5**	821.7	3.3
Total equity	**45,114.1**	46,090.6	(2.1)

Summary of Accounting Data and Financial Indicators

Notes:

(1) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.

(2) Calculated based on the ''Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share'' (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for 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, and based on daily average interest-earning assets and interest-bearing liabilities.

(4) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

(5) Calculated by dividing operating expenses after deduction of business tax and surcharges by operating income.

(6) The Administrative Measures for the Capital of Commercial Banks was issued by China Banking and Insurance Regulatory Commission on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.

(7) Calculated by dividing total non-performing loans and advances by gross loans and advances to customers.

(8) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans.

(9) Calculated by dividing allowance for impairment losses on loans and advances to customers by gross loans and advances to customers.

Management Discussion and Analysis

1. Past Economy and Financial Environment and Future Prospects

During the Reporting Period, the world economy continued its upward trend since last year, and the positive signs of economic recovery were still clouded by many changes, but different economic entities had showed differentiations. Under the incentives of a series of policies such as tax cut policy, the United States maintained its moderate economic growth with core economic indicators continuing to remain positive, and have boosted strong business and consumers' confidence. The growth of European economy had slowed down, but each data maintained in a good status. As affected by factors such as the appreciation of the U.S. dollar, weakened economic growth momentum of emerging economies, uprising economic risks, and the significant depreciation of currencies in countries such as Argentina and Turkey, the economic upheaval was intensified. Since March 2018, the trade war has become an important risk factor for international trade and global economic growth, which caused an adverse impact on world economic growth.

During the Reporting Period, the PRC economy functioned well and was characterized by a steady growth, further advancement of structural adjustment, a switch from old to new driving forces, steadily improvement of the quality and efficiency, and good progress in high quality development of the economy. In the first half of 2018, the GDP was RMB41,896.1 billion, representing an increase of 6.8% and has been remained at the mid-high range of 6.7% to 6.9% for the 12 consecutive quarters. The national per capita consumption expenditure was RMB9,609, representing an increase of 8.8% as compared with the same period of last year. The fixed assets investment (excluding farmers) was RMB29,731.6 billion, representing an increase of 6.0% as compared with the same period of last year. The total import and export volume of goods was RMB14,122.7 billion, representing an increase of 7.9% as compared with the same period of last year. The Chinese economy has maintained its stability along the high-quality development track and continues to serve as the "stabilizer" and "power source" for the world economy.

During the Reporting Period, the economy of Henan Province maintained a stable, healthy and continuous improvement trend with adjustment and optimization of economic structure, rapid growth in new driving forces, continuous improvement of quality and efficiency, which facilitated high-quality development with a good start. The GDP was RMB2,224,451 million, representing an increase of 7.8% as compared with the same period last year, which was 1.0 percentage point higher than the national average level. The fixed asset investment increased by 9.3%, which was 3.3 percentage points higher than the national average level. The total retail sales of consumer goods increased by 11.1% to RMB994,805 million, which was 1.7 percentage points higher than the national average level. Disposable income of households per capita increased by 9.1% to RMB10,263.92, which was 0.4 percentage point higher than the national average level.

During the Reporting Period, the People's Bank of China (the "Central Bank") continued to adopt a general principle of steady and neutral monetary policy, so as to ensure the money supply matches the operation of the real economy, and create a moderately neutral monetary and financial environment for high-quality development. In the first half of 2018, the balance of broad money (M2) amounted to RMB177.02 trillion, representing an increase of 8% as compared to the same period of last year. The balance of RMB-denominated loan amounted to RMB129.15 trillion, representing an increase of 12.7% as compared to the same period of last year. Stringent regulation results in continued contraction of off-balance sheet financing, and decline in the size of public financing. In the first half of 2018, the scale of public financing increased by RMB9.1 trillion, representing a decrease of RMB2.03 trillion as compared with the same period of last year. It is expected that in the second half of 2018, deleveraging will enter into a stable leverage period, monetary policy and credit policy will further promote the allocation of credit assets to support the real economy.

2. Overall Operation Overview

During the Reporting Period, faced with the complicated and changing economic and financial situation, the Bank actively seized the opportunities of transformation and development to achieve steady growth in operating results under the guidance of the "Three Major Strategies (三大戰略)". The Bank adhered to "sustainable development, quality improvement, efficiency enhancement", implemented "Internetization and Ruralization of Banking Services (上網下鄉)" strategy, and facilitated the reforms and innovative development with every endeavor to continuously improve the risk control system and support local economic construction. It ranked 196th among the global Top 1,000 banks in terms of tier-one capital rated by The Banker in 2018, representing a significant increase of 31 places as compared with last year. In addition, the Bank ranked 31st among Chinese commercial banks, representing an increase of 4 places as compared with last year.

Steady growth of assets and liabilities and stable development of business operations. During the Reporting Period, the assets and liabilities witnessed a steady growth. As of June 30, 2018, the Bank's total assets amounted to RMB545,036 million, representing an increase of RMB23,047 million as compared to the beginning of the year, with a growth rate of 4.4%. The balance of deposits amounted to RMB338,859 million, representing an increase of RMB32,151 million or 10.5% as compared to the beginning of the year, which was 3.8 percentage points higher than the average financial institution growth in Henan province. The average daily balance of deposits exceeded RMB300 billion. The total loans amounted to RMB218,856 million, representing an increase of RMB19,954 million, or 10.0% as compared to the beginning of the year, which was 2.2 percentage points higher than the average financial institution growth in Henan province. In addition, each business was developed in a steady manner. The corporate business realized sustainable growth by adhering to the promotion of "one account one strategy" and layered operation approach. The total number of corporate clients reached 179,000, representing an increase of 3,000 as compared to the beginning of the year. As of June 30, 2018, the corporate deposit balance amounted to RMB199,655 million, representing an increase of RMB17,698 million, or 9.7% as compared to the beginning of the year. The total corporate loan amounted to RMB132,128 million, representing an increase of RMB7,156 million, or 5.7% as compared to the beginning of the year. In respect of retail business, based on "three focuses and one adherence", namely, focusing on demolition, collection and ecosphere construction and adhering to the operation of customers, the Bank gradually improved service system and continuously enhanced the capability to attract and activate customers. The total number of retail customers of the Bank reached 11,290,000, representing an increase of 930,000 as compared to the beginning of the year. The balance of personal deposits amounted to RMB139,204 million, representing an increase of RMB14,453 million or 11.6% as compared to the beginning of the year. The total personal loans amounted to RMB86,729 million, representing an increase of RMB12,797 million or 17.3% as compared to the beginning of the year.

Remarkable progress in quality and efficiency enhancement and significant improvement in development quality. The development quality was significantly improved after the Bank adopted a series of measures by focusing on "quality improvement, efficiency enhancement". Firstly, the profitability was further enhanced. During the Reporting Period, the Bank achieved a net operating income of RMB7,582 million, representing an increase of RMB1,706 million or 29.0% as compared to the same period last year. The net profit amounted to RMB1,888 million, representing an increase of RMB141 million or 8.1% as compared to the same period last year. Secondly, the business structure was further optimized. The total amount of high-yielding loans and structured finance accounted for 57.3% to the total assets, representing 4.0 percentage points higher as compared to the beginning of the year; the low-cost general deposits accounted for 67.8% to total liabilities, representing an increase of 3.4 percentage points as compared to the beginning of the year; high-cost interbank liabilities (including interbank certificates of deposit)) accounted for 27.7% to total liabilities, representing a decrease of 6.0 percentage points as compared to the beginning of the year. In addition, the Bank expanded service channels to enrich source of income, in return, it obtained a non-interest income of RMB1,175 million, which accounted for 15.5% to net operating income, representing an increase of 11.0 percentage points as compared to the same period last year. Thirdly, the increase in revenue and reduction in cost have achieved initial success. Along with the strengthened measures in terms of interest collection ratio, pricing, assets and liabilities, and expense management, the cost-to-income ratio decreased to 37.05% from 39.29% in the same period last year, representing a decrease of 2.24 percentage points as compared with the same period last year.

Comprehensively promoting strategic transformation to achieve development led by digital technology. The Bank actively welcomed the trend towards digitalization and promoted agile business reform. By leveraging on the advantages of traditional finance and integrating the Internet innovation, the Bank endeavored to create a differential competitive advantage featuring digitalization and technology leadership. First, the Bank comprehensively launched strategic transformation with specific objectives and methods, established a specialized transformation office, worked out a transformation blueprint with the goal of realizing digitalization and technology leadership and clearly set a three-year three-step transformation method. Second, the Bank promoted four onlines in an orderly manner to construct infrastructures for agile transformation, and promoted "products online", "clients online", "employees online" and "management online"(產品在線、客戶在線、員工在線、管理在線) in a planned way to achieve the transformation of development driving forces. Third, the Bank boosted organizational structural reform and comprehensively improved customer experience. The Bank reshaped the design logic of the organizational structure, adjusted department setup from by functions to by clients, carried out the working method of agile banks and accelerated product innovation and iteration to take end-to-end responsibilities for clients and enhance customer experience in an all-round way. Fourth, the Bank comprehensively consolidated its big data capacity to form structural advantages. We formulated a big data development blueprint, set up a data banking department, launched data governance, promoted the implementation of the big data marketing closed-loop system and formed the structural advantages of marketing, risk control and operation.

Breakthroughs in product innovation in various aspects and gradually improved business qualifications. The Bank intensified its efforts in innovation and reform, gradually improved its product innovation system and mechanism, and has achieved remarkable breakthroughs in product research and development. The Bank strengthened the establishment of platforms such as mobile phone banking, direct marketing banking, community banking and farmers-benefiting APP, and gradually improved online product systems. The Bank launched a series of highly innovative and competitive products such as "Tax Receipt Loans, Science and Technology Loans (科技貸), Government Procurement Loans, Yong Xu Dai (永續貸), Xu Dai Bao (續貸寶), Small Secured Loans, Hui Nong Bao (惠農寶), ETC Credit Card, Syndicated Loans", which played an important role in promoting and supporting business development. In June 2018, the Zhongyuan gourmand map characterized by "complete gourmet, wide platform, preferential price, sufficient specialties, fast payment and convenient use" was officially launched, fully kicking off the construction of ecosystem. In addition, the Bank vigorously developed investment banking and transaction banking, successfully issued financial bonds for the first time, which provided a new channel to support the development of green and innovative start-up industries in Henan province. The Bank actively adapted itself to new regulations on capital management, such as improving product system and actively expanding business scales. During the Reporting Period, the Bank developed and launched structured deposits, successfully launched the first net-worth wealth management product and obtained the qualifications for basic derivative products, first-class dealer in open market and state treasury cash tender. It succeeded to become directly connected with the system of Shanghai Commercial Paper Exchange, by which the products such as OMO, MLF and interest rate swaps were launched continuously and business qualifications was improved, which in return enhanced the development foundation of the Bank.

Further implementation of inclusive finance and contribution to rural revitalization strategy. By thoroughly implementing the spirit of the 19th National Congress of the Communist Party of China and the central rural work conference, the Bank improved its service capabilities, comprehensively implemented the "concept, capital, channels, products and services down to earth" and made contribution to rural revitalization. Firstly, the Bank actively built "three-in-one" service system covering county, township and village. As of the end of June 2018, the Bank had established 120 county sub-branches and 37 rural township sub-branches in Henan province, and deployed 3,400 farmers-benefiting services points, which covered more than 90% regions of Henan province, benefited more than 6 million county and rural residents and filled the rural financial gap by practical actions. At the same time, taking into account of the actual situation of the rural market in Henan province, the Bank started to innovate farmers-benefiting products from the aspects of convenience, safety and profitability. The Bank launched the four major farmers-benefiting products system of "Yuan Hui Dai(原惠貸), Yuan Hui Cun(原惠存), Yuan Hui Ying (原惠盈) and Yuan Hui Kuai(原惠快)", as to meet the financial needs of rural residents, In addition, it adopted the "Internet+" model to promote the "downward agricultural capital" and "upward agricultural products" in rural areas. Secondly, the Bank vigorously carried out financial targeted poverty alleviation, innovated financial poverty alleviation business model, promoted the replication of "Lushi model (盧氏模式)", actively participated in the experimental zone in terms of inclusive finance reform in Lankao county, and cooperated with Grameen Bank in Bangladesh to introduce international advanced financial poverty alleviation experience, so as to take the lead in launching "photovoltaic loan" poverty alleviation loans in Henan province, carry out industrial poverty alleviation, and increase employment opportunities for poverty-stricken families, and change poverty alleviation from blood-transfusion to self-driver. Thirdly, the Bank actively promoted the farmers-benefiting value-added services, and successfully held the "First Rural Revitalization Forum of Zhongyuan Bank in 2018", which deepened the township government personnel's theoretical understanding and practical cognition regarding the "Rural Revitalization Strategy", which provided foundation for financial institutions to support targeted poverty alleviation in rural areas and rural revitalization.

Continuously improved risk control standards with stable asset quality. During the Reporting Period, the Bank actively responded to complex and severe internal and external risk situations, continuously enhanced awareness of risk management and control, and gradually optimized the risk management system, which enabled the risk control standard continued to improve. Firstly, the Bank continuously improved the overall risk management system. In terms of credit risk management, the Bank established an online framework for the whole-process risk management and strengthened the online management of loans. In terms of market risk management, the Bank built a market risk management framework to strengthen monitoring, measurement and reporting. In terms of information technology risk management, the Bank completed the business continuity management planning. Secondly, the Bank intensified risk management. The Bank effectively standardized the risk management at various branches by establishing mechanisms such as policy and system reporting, joint meetings and risk management reporting, and enhancing guidance. Meanwhile, the Bank exerted its best efforts to win the battle against "reducing old loans and controlling new loans (降舊控新)", stepped up the efforts on collection and disposal of non-performing assets, and achieved noticeable effect in this regard. The balance of non-performing loans amounted to RMB4,114 million with 1.88% of non-performing loan ratio, and the quality of assets remained stable.

3. Analysis on Income Statement

For the six months ended June 30, 2018, the Bank recorded profit before taxation and net profit of approximately RMB2,418 million and RMB1,888 million, representing an increase of approximately 8.0% and 8.1% as compared to the same period last year, respectively.

	For the six months ended June 30,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Interest income	**11,935.4**	9,521.3	2,414.1	25.4%
Interest expense	**(5,528.5)**	(3,907.7)	(1,620.8)	41.5%
Net interest income	**6,406.9**	5,613.6	793.3	14.1%
Fee and commission income	**700.0**	307.0	393.0	128.0%
Fee and commission expense	**(56.9)**	(30.9)	(26.0)	84.1%
Net fee and commission income	**643.1**	276.1	367.0	132.9%
Net trading losses	**(37.2)**	(73.6)	36.4	(49.5%)
Net gains/(losses) arising from investments securities	**517.1**	(1.8)	518.9	N/A
Other operating income[1]	**52.0**	61.5	(9.5)	(15.4%)
Operating income	**7,581.9**	5,875.8	1,706.1	29.0%
Operating expenses	**(2,875.7)**	(2,359.2)	(516.5)	21.9%
Impairment losses on assets	**(2,288.6)**	(1,278.5)	(1,010.1)	79.0%
Operating profit	**2,417.6**	2,238.1	179.5	8.0%
Profit before taxation	**2,417.6**	2,238.1	179.5	8.0%
Income tax	**(529.3)**	(490.5)	(38.8)	7.9%
Net profit	**1,888.3**	1,747.6	140.7	8.1%
Net profit attributable to shareholders of the Bank	**1,851.5**	1,718.5	133.0	7.7%
Gains of minority interests	**36.8**	29.1	7.7	26.5%

Note:

(1) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

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

For the six months ended June 30, 2018, the Bank recorded net interest income of RMB6,407 million, representing an increase of RMB793 million or 14.1% as compared to the same period last year. Among this, a net interest income growth of RMB862 million as compared to the six months ended June 30, 2017 was attributable to the expansion of the Bank's business scale and a decline in net interest income of RMB69 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities for the six months ended June 30, 2017 and 2018.

	For the six months ended June 30,					
	2018			2017		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	**204,594.3**	**6,091.2**	**5.95%**	174,188.7	5,158.0	5.92%
Investment securities and other financial assets(2)	**211,694.8**	**5,099.2**	**4.82%**	174,096.5	3,874.7	4.45%
Deposits with Central Bank	**47,013.4**	**350.3**	**1.49%**	39,659.1	295.5	1.49%
Deposits with bank and other financial institutions	**11,010.0**	**159.2**	**2.89%**	6,396.0	75.5	2.36%
Financial assets held under resale agreements	**13,006.7**	**203.9**	**3.14%**	4,434.6	62.9	2.84%
Placements with banks and other financial institutions	**1,516.4**	**31.6**	**4.17%**	2,641.1	54.7	4.14%
Total interest-earning assets	**488,835.6**	**11,935.4**	**4.88%**	401,416.0	9,521.3	4.74%

	For the six months ended June 30,					
	2018			2017		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/cost(1)
	(in millions of RMB, except percentages)					
Interest-bearing liabilities						
Deposits from customers	**315,235.1**	**2,404.6**	**1.53%**	255,975.7	1,805.7	1.41%
Financial assets sold under repurchase agreements	**20,975.9**	**289.4**	**2.76%**	23,360.0	337.6	2.89%
Placements from banks and other financial institutions	**7,105.1**	**134.4**	**3.78%**	1,838.9	23.8	2.59%
Borrowings from Central Bank	**1,999.2**	**25.1**	**2.51%**	2,189.3	34.0	3.11%
Deposits from banks and other financial institutions	**46,479.3**	**1,049.5**	**4.52%**	38,198.7	775.4	4.06%
Debt securities issued(3)	**68,472.8**	**1,625.5**	**4.75%**	48,351.4	931.2	3.85%
Total interest-bearing liabilities	**460,267.4**	**5,528.5**	**2.40%**	369,914.0	3,907.7	2.11%
Net interest income		**6,406.9**			5,613.6	
Net interest spread(4)			**2.48%**			2.63%
Net interest margin(5)			**2.62%**			2.80%

Notes:

(1) Calculated by dividing interest income/expense by average balance.

(2) As at June 30, 2017, investment securities and other financial assets consist of financial assets at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments and investment receivables; as at June 30, 2018, as New Accounting Standards for Financial Instruments implemented by the Bank, investment securities and other financial assets consist of financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss for the current period.

(3) Mainly consist of interbank deposits and financial bonds issued.

(4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(5) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. 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 rates 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 interest.

	For the six months ended June 30, Change over the corresponding period of last year		
	Reasons for increase/(decrease)		
	Volume[(1)]	Rate[(2)]	Net increase/ (decrease)[(3)]
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	905.3	27.9	933.2
Investment securities and other financial assets	905.6	318.9	1,224.5
Deposits with the Central Bank	54.8	–	54.8
Deposits with banks and other financial institutions	66.7	17.0	83.7
Financial assets held under resale agreements	134.4	6.6	141.0
Placements with banks and other financial institutions	(23.5)	0.4	(23.1)
Changes in interest income	2,043.3	370.8	2,414.1
Interest-bearing liabilities			
Deposits from customers	452.0	146.9	598.9
Financial assets sold under repurchase agreements	(32.9)	(15.3)	(48.2)
Placements from banks and other financial institutions	99.6	11.0	110.6
Borrowings from Central Bank	(2.4)	(6.5)	(8.9)
Deposits from banks and other financial institutions	187.0	87.1	274.1
Debt securities issued	477.6	216.7	694.3
Changes in interest expense	1,180.9	439.9	1,620.8

Notes:

(1) Represents the average balance for the Reporting Period net of the average balance for the same period last year, multiplied by the average yield/cost for the period.

(2) Represents the average yield/cost for the Reporting Period minus the average yield/cost for the same period last year, multiplied by the average balance for the last period.

(3) Represents interest income/expense for the Reporting Period net of interest income/expense for the same period last year.

3.2 Interest Income

For the six months ended June 30, 2018, the Bank's interest income increased by RMB2,414 million or 25.4% to RMB11,935 million as compared to the same period last year, primarily attributable to (i) the increase in the volume of loans and advances to customers and (ii) the increase in the volume of investment securities and other financial assets.

3.2.1 Interest income from loans and advances to customers

For the six months ended June 30, 2018, the Bank's interest income from loans and advances to customers increased by RMB933 million or 18.1% to RMB6,091 million as compared to the same period last year, primarily attributable to the Bank's overall increase in the granting of loans with stronger support on marketing promotion and product innovation. With respect to the corporate business, the Bank increased its support on the real economy by constantly accelerating the research and development and promoting financial products in small and micro enterprises such as Tax Receipt Loans, Government Procurement Loans, and Science and Technology Loans (科技貸), which constantly improved the corporate business product system. As for the retail business, the Bank strengthened its business marketing and further enriched and improved the retail credit online system through continuously improving the online upgrading and transformation of "Yong Xu Dai (永續貸)", "Miao Dai (秒貸)", car loans and student loans, showing its stronger support on the consumption to grow. The average balance of loans increased from RMB174,189 million to RMB204,594 million. The average yield increased from 5.92% to 5.95%, primarily due to the continuously deepened research on market trend, strengthened pricing management and growth of the average yield of loan.

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 balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans[1]	123,471.2	3,701.0	5.99%	122,609.9	3,683.1	6.01%
Personal loans	81,123.1	2,390.2	5.89%	51,578.8	1,474.9	5.72%
Total	204,594.3	6,091.2	5.95%	174,188.7	5,158.0	5.92%

Note:

(1) Corporate loans include discounted bills.

3.2.2 Interest income from investment securities and other financial assets

For the six months ended June 30, 2018, the Bank's interest income from investment securities and other financial assets increased by RMB1,225 million or 31.6% to RMB5,099 million as compared to the same period last year, primarily attributable to the increase in the average balance and the average yield of investment securities and other financial assets. The increase in the average balance of investment securities and other financial assets was primarily due to the Bank's optimization of its asset structure and an increase in investments in asset management plans and trust plans for assets with high yields. The increase in the average yield was due to the deepened research on monetary and fiscal policies and kept abreast of the market, which effectively improved the average yield of investment securities and other financial assets.

3.2.3 Interest income from deposits with the Central Bank

For the six months ended June 30, 2018, the Bank's interest income from deposits with the Central Bank increased by RMB55 million or 18.5% to RMB350 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits with the Central Bank. The increase in the average balance of deposits with the Central Bank was primarily attributable to an increase in deposits from customers resulting in the growth in the size of deposit reserves.

3.2.4 Interest income from deposits with banks and other financial institutions

For the six months ended June 30, 2018, the Bank's interest income from deposits with banks and other financial institutions increased by RMB84 million to RMB159 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits with banks and other financial institutions of RMB4,614 million to RMB11,010 million for the six months ended June 30, 2018 from RMB6,396 million for the six months ended June 30, 2017.

3.2.5 Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements increased by RMB141 million from RMB63 million for the six months ended June 30, 2017 to RMB204 million for the six months ended June 30, 2018, primarily attributable to the increase in the average balance of financial assets held under resale agreements of RMB8,572 million from RMB4,435 million for the six months ended June 30, 2017 to RMB13,007 million for the six months ended June 30, 2018.

3.2.6 Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions decreased by RMB23 million from RMB55 million for the six months ended June 30, 2017 to RMB32 million for the six months ended June 30, 2018, primarily attributable to the decrease in the average balance of placements with banks and other financial institutions of RMB1,125 million from RMB2,641 million for the six months ended June 30, 2017 to RMB1,516 million for the six months ended June 30, 2018.

3.3 Interest Expense

For the six months ended June 30, 2018, the Bank's interest expense increased by RMB1,621 million or 41.5% to RMB5,529 million as compared to the same period last year, primarily attributable to the increase in the volume of deposits from customers, debt securities issued, deposits from banks and other financial institutions and average cost.

3.3.1 Interest expense on deposits from customers

For the six months ended June 30, 2018, the Bank's interest expense on deposits from customers increased by RMB599 million or 33.2% to RMB2,405 million as compared to the same period last year, primarily attributable to the increase in the average balance deposits from customers of the Bank and average cost. The increase in the average balance of deposits from customers of the Bank was primarily due to our continuous development of corporate banking and personal banking businesses, accelerated product innovation and optimization, and improved service systems to effectively drive the growth of deposits. The increase in the average cost of deposits from customers was primarily due to the increase in market interest rates as a result of the impact of interest rate liberalization.

	For the six months ended June 30,					
	2018			2017		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	**121,015.8**	**376.5**	**0.62%**	91,189.5	309.8	0.68%
Time	**60,963.4**	**611.9**	**2.01%**	58,211.3	535.7	1.84%
Sub-total	**181,979.2**	**988.4**	**1.09%**	149,400.8	845.5	1.13%
Personal deposits						
Demand	**31,665.6**	**70.4**	**0.44%**	31,366.1	65.1	0.42%
Time	**101,590.3**	**1,345.8**	**2.65%**	75,208.8	895.1	2.38%
Sub-total	**133,255.9**	**1,416.2**	**2.13%**	106,574.9	960.2	1.80%
Total deposits from customers	**315,235.1**	**2,404.6**	**1.53%**	255,975.7	1,805.7	1.41%

3.3.2 Interest expense on deposits from banks and other financial institutions

For the six months ended June 30, 2018, the Bank's interest expense on deposits from banks and other financial institutions increased by RMB274 million or 35.3% to RMB1,050 million as compared to the same period last year. The increase in the interest expense on deposits from banks and other financial institutions was primarily attributable to the increase in the average balance and average cost. The increase in the average balance of deposits from banks and other institutions was primarily attributable to the increase in deposits from banks and other financial institutions after the Bank's comprehensive consideration regarding assets and liabilities allocation. The increase in the average cost was primarily attributable to the high market interest rate of interbank liabilities in the second half of 2017, the cost of existing deposits from banks and other financial institutions resulted in an increase in the average cost of deposits from banks and other financial institutions in the first half of 2018.

3.3.3 Interest expense on debt securities issued

For the six months ended June 30, 2018, the Bank's interest expense on debt securities issued increased by RMB694 million or 74.6% to RMB1,626 million as compared to the same period last year, primarily attributable to the increase in the average balance of debt securities issued and the increase in the average cost. The increase in the average balance of debt securities issued by the Bank was primarily attributable to the financial bonds issued during the Reporting Period. The increase in the average cost was primarily attributable to the the high market interest rate of interbank liabilities in the second half of 2017, as the cost of existing issued interbank certificates of deposit led to an increase in the average cost of debt securities issued in the first half of 2018.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.63% for the corresponding period of last year to 2.48% for the current year, while the Bank's net interest margin decreased from 2.80% for the corresponding period of last year to 2.62% for the current year. The decreases in net interest spread and net interest margin were primarily attributable to (i) the increase in average cost of deposits from customers due to the impact of the interest rate liberalization; (ii)the cost of existing interbank liabilities led to an increase in the average cost of interbank liabilities in the first half of 2018 as a result of the high market interest rate of interbank liabilities in the second half of 2017.

3.4 Non-interest income

3.4.1 Fee and commission income

For the six months ended June 30, 2018, the Bank's net fee and commission income increased by RMB367 million or 132.9% to RMB643 million as compared to the same period last year, primarily attributable to the increased business scale as the Bank actively expanded its intermediate businesses.

	For the six months ended June 30,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Fee and commission income				
Bank card service fees	**26.8**	19.2	7.6	39.6%
Settlement and clearing service fees	**101.5**	39.1	62.4	159.6%
Agency service income	**72.0**	19.2	52.8	275.0%
Underwriting service income	**107.2**	31.3	75.9	242.5%
Acceptance and guarantee service fees	**65.1**	28.3	36.8	130.0%
Advisory and consulting fees	**24.8**	60.1	(35.3)	(58.7%)
Custodial service fees	**189.4**	27.9	161.5	578.9%
Wealth management business fees	**113.2**	81.9	31.3	38.2%
Sub-total	**700.0**	307.0	393.0	128.0%
Fee and commission expenses	**(56.9)**	(30.9)	(26.0)	84.1%
Net fee and commission income	**643.1**	276.1	367.0	132.9%

For the six months ended June 30, 2018, the Bank realized custodial service fees income of RMB189 million, representing an increase of RMB162 million as compared to the same period last year, primarily attributable to the Bank's continuous development of capital custody business with an increase in the scale of services offered.

For the six months ended June 30, 2018, the Bank realized wealth management business fees income of RMB113 million, representing an increase of RMB31 million as compared to the same period last year, primarily attributable to the Bank's continuous improvement of its product system and the increase in the issuance size of its wealth management.

For the six months ended June 30, 2018, the Bank realized underwriting service income of RMB107 million, representing an increase of RMB76 million as compared to the same period last year, primarily attributable to the Bank's proactive development of underwriting business with an increase in the scale of services offered.

For the six months ended June 30, 2018, the Bank realized agency service income of RMB72 million, representing an increase of RMB53 million as compared to the same period last year, primarily attributable to the Bank's continuous development of agency business and expansion of service channel.

For the six months ended June 30, 2018, the Bank realized advisory and consulting fees income of RMB25 million, representing a decrease of RMB35 million as compared to the same period last year, primarily attributable to the decrease in the size of advisory and consulting services offered as a result of the market demand changes.

3.4.2 Net trading losses

For the six months ended June 30, 2018, the Bank's net trading losses were RMB37 million, representing a decrease of RMB36 million as compared to the same period last year, primarily attributable to (1) the rising price of the Bank's securities assets at fair value through profit or loss as a result of the downward market interest rate; (2) during the Reporting Period, the exchange rate of the US dollar showed an upward trend, resulting in the exchange gain of RMB74 million generated.

3.4.3 Net gains/(losses) arising from investment securities

For the six months ended June 30, 2018, the Bank's net gains arising from investment securities were RMB517 million, representing an increase in gains of RMB519 million as compared to the same period last year, primarily attributable to (1) the rising price of financial assets as a result of the downward market interest rate; (2) the range of financial assets measured at fair value increased as compared to the same period last year as the implementation of New Accounting Standards for Financial Instruments by the Bank from January 1, 2018.

3.5 Operating expenses

For the six months ended June 30, 2018, the Bank's operating expenses increased by RMB517 million or 21.9% to RMB2,876 million as compared to the same period last year, primarily attributable to the growths in staff costs, depreciation and amortisation and other general and administrative expenses caused by the Bank's active layout of "Internetization and Ruralization of Banking Services", promotion of full coverage outlets, and acceleration of the transformation to digital banking and technology-based banks.

	For the six months ended June 30,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	**1,128.8**	895.2	233.6	26.1%
Staff welfare	**108.9**	91.7	17.2	18.8%
Social insurance and annuity	**201.2**	147.6	53.6	36.3%
Housing fund	**72.0**	58.5	13.5	23.1%
Employee education expenses and labor union expenses	**38.4**	38.6	(0.2)	(0.5%)
Others[1]	**46.2**	26.3	19.9	75.7%
Sub-total of staff costs	**1,595.5**	1,257.9	337.6	26.8%
Tax and surcharges	**66.5**	50.4	16.1	31.9%
Depreciation and amortisation	**388.1**	348.7	39.4	11.3%
Other general and administrative expenses	**825.6**	702.2	123.4	17.6%
Total	**2,875.7**	2,359.2	516.5	21.9%

Note:

(1) Primarily included expenses relating to dispatched staff.

For the six months ended June 30, 2018, the Bank's staff costs increased by RMB338 million or 26.8% to RMB1,596 million as compared to the same period last year, primarily attributable to the increase in salaries, bonuses and allowances as well as social insurance and annuities and staff welfare expenses as a result of the increase in staff headcount of the Bank. Staff costs represented the largest component of the Bank's operating expenses, and respectively accounted for 55.5% and 53.3% of the total operating expenses for the six months ended June 30, 2018 and the six months ended June 30, 2017.

For the six months ended June 30, 2018, depreciation and amortisation expenses increased by RMB39 million or 11.3% to RMB388 million as compared to the same period last year, primarily attributable to our intensified and continuous efforts on the construction of information technology system to pursue a "technology-based" bank, and additional investment on new outlets to realize full coverage of outlets in Henan Province.

For the six months ended June 30, 2018, tax and surcharges amounted to RMB67 million, representing an increase of RMB16 million or 31.9% as compared to the same period last year. The increase was primarily due to the increase in operating income.

For the six months ended June 30, 2018, other general and administrative expenses increased by RMB123 million or 17.6% to RMB826 million as compared to the same period last year. Other general and administrative expenses primarily include rentals and property management fees, office expenses, business marketing expenses and others.

3.6 Impairment losses

For the six months ended June 30, 2018, the Bank's impairment losses increased by RMB1,010 million or 79.0% to RMB2,289 million as compared to the same period last year, which primarily attributable to (i) more rigorous written-off of non-performing loans of the Bank; (ii) the Bank implemented the New Accounting Standards for Financial Instruments from January 1, 2018, in which the method of impairment provisions has been changed from the "incurred loss model" to "expected credit loss model", and the scope of provision for impaired financial assets increased as compared with the same period last year.

	For the six months ended June 30,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Loans and advances to customers	**1,932.6**	1,088.2	844.4	77.6%
Investment financial assets[(1)]	**306.2**	183.5	122.7	66.9%
Other assets[(2)]	**49.8**	6.8	43.0	632.4%
Total impairment losses	**2,288.6**	1,278.5	1,010.1	79.0%

Notes:

(1) Impairment losses for the six months ended June 30, 2017 are impairment losses on receivables and available-for-sale financial assets; from January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses for the six months ended June 30, 2018 include impairment losses on financial investments at amortised cost and financial investments at fair value through other comprehensive income.

(2) Impairment losses for the six months ended June 30, 2017 mainly include impairment losses on other receivables; from January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses for the six months ended June 30, 2018 mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset and other receivables.

3.7 Income tax expense

For the six months ended June 30, 2018, the Bank's income tax increased by RMB39 million or 7.9% to RMB529 million, primarily attributable to the increase in the Bank's profit before taxation.

	For the six months ended June 30,			
	2018	2017	Change	Rate of Change
	(in millions of RMB, except percentages)			
Current income tax	**460.9**	733.1	(272.2)	(37.1%)
Deferred income tax	**68.4**	(242.6)	311.0	N/A
Total income tax expenses	**529.3**	490.5	38.8	7.9%

4. Analysis on the Major Items of Balance Sheet

4.1 Assets

As of June 30, 2018, the Bank's total assets increased by RMB23,047 million or 4.4% to RMB545,036 million as compared to 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 (net), representing 38.8% and 41.1% of the Bank's total assets as of June 30, 2018, respectively.

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

	As of June 30, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Gross loans and advances to customers	**218,856.4**	**40.2%**	198,902.9	38.1%
Allowance for impairment losses	**(7,290.9)**	**(1.4%)**	(7,194.1)	(1.4%)
Loans and advances to customers, net	**211,565.5**	**38.8%**	191,708.8	36.7%
Investment securities and other financial assets	**224,193.8**	**41.1%**	226,924.2	43.5%
Financial assets held under resale agreements	**10,151.1**	**1.9%**	12,988.6	2.5%
Cash and deposits with Central Bank	**71,743.2**	**13.2%**	64,369.4	12.3%
Deposits with banks and other financial institutions	**6,538.4**	**1.2%**	8,923.8	1.7%
Placements with banks and other financial institutions	**2,439.1**	**0.4%**	1,363.4	0.3%
Derivative financial assets	**17.5**	**0.0%**	–	–
Other assets [(1)]	**18,387.7**	**3.4%**	15,711.6	3.0%
Total assets	**545,036.3**	**100.0%**	521,989.8	100.0%

Note:

(1) Consist primarily of properties and equipments, deferred income tax assets, goodwill and other assets.

4.1.1 Loans and advances to customers

As of June 30, 2018, the Bank's gross loans and advances to customers increased by RMB19,954 million or 10.0% to RMB218,856 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

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

	As of June 30, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans	**125,297.4**	**57.3%**	112,849.6	56.7%
Personal loans	**86,728.5**	**39.6%**	73,931.1	37.2%
Discounted bills	**6,830.5**	**3.1%**	12,122.2	6.1%
Total loans to customers	**218,856.4**	**100.0%**	198,902.9	100.0%

(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As of June 30, 2018, the Bank's corporate loans increased by RMB12,448 million or 11.0% to RMB125,297 million as compared to the end of last year, representing 57.3% of the Bank's gross loans to customers, primarily attributable to the Bank' efforts to develop its corporate loan business.

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

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of total**	Amount	% of total
	(in millions of RMB, except percentages)			
Unsecured loans	**6,850.2**	**5.4%**	5,423.7	4.8%
Guaranteed loans	**65,385.8**	**52.2%**	61,708.3	54.7%
Collateralized loans	**36,531.2**	**29.2%**	33,667.7	29.8%
Pledged loans	**16,530.2**	**13.2%**	12,049.9	10.7%
Total corporate loans	**125,297.4**	**100.0%**	112,849.6	100.0%

(2) Personal loans

As of June 30, 2018, the Bank's personal loans increased by RMB12,797 million or 17.3% to RMB86,729 million as compared to the end of last year, primarily attributable to the Bank's continuous efforts in improving the retail product system and increasing support for consumption growth.

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

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of total**	Amount	% of total
	(in millions of RMB, except percentages)			
Personal residential mortgage loans	**45,600.2**	**52.6%**	39,977.3	54.1%
Personal business loans	**19,786.9**	**22.8%**	20,209.0	27.3%
Personal consumption loans	**20,165.0**	**23.3%**	13,494.0	18.3%
Other personal loans	**1,176.4**	**1.3%**	250.8	0.3%
Total personal loans	**86,728.5**	**100.0%**	73,931.1	100.0%

(3) Discounted bills

As of June 30, 2018, the Bank's discounted bills decreased by RMB5,292 million or 43.7% to RMB6,831 million as compared to the end of last year, primarily because the Bank optimized its assets structure by adjusting the amount of its discounted bills and allocating more funds to loans and other assets with higher returns.

4.1.2 Investment securities and other financial assets

As of June 30, 2018, the Bank's total investment securities and other financial assets decreased by RMB2,730 million or 1.2% to RMB224,194 million as compared to the end of last year, primarily due to the impairment provision method has changed from "incurred loss model" to "expected credit loss model" since the implementation of the new financial instrument standards by the Bank on January 1, 2018, and the scope of investment securities and other financial assets subject to impairment expanded as compared with the end of last year, which resulted in the growth of balance of the impairment provision for investment securities and other financial assets as compared with the end of last year.

The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of total**	Amount	% of total
	(in millions of RMB, except percentages)			
Debt Securities				
PRC government bonds	**24,778.1**	**11.1%**	21,314.3	9.4%
Debt securities issued by PRC policy banks and other financial institutions	**39,782.3**	**17.7%**	47,327.1	20.8%
Debt securities issued by PRC corporate issuers	**10,459.0**	**4.7%**	7,414.5	3.3%
Sub-total	**75,019.4**	**33.5%**	76,055.9	33.5%
Other financial assets				
Wealth management products issued by other PRC commercial banks	**20,161.8**	**9.0%**	31,471.9	13.9%
Asset management plans	**20,026.6**	**8.9%**	21,457.7	9.5%
Trust plans	**79,114.9**	**35.3%**	65,923.9	29.1%
Others	**29,871.1**	**13.3%**	32,014.8	14.0%
Sub-total	**149,174.4**	**66.5%**	150,868.3	66.5%
Total investment securities and other financial assets	**224,193.8**	**100.0%**	226,924.2	100.0%

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements, (ii) cash and deposits with the Central Bank, (iii) deposits with banks and other financial institutions, (iv) placements with banks and other financial institutions and (v) other assets.

As of June 30, 2018, the financial assets held under resale agreements decreased by RMB2,838 million or 21.8% to RMB10,151 million as compared to the end of last year, primarily because the Bank adjusted the size of the financial assets held under resale agreements at the end of the Reporting Period after taking comprehensive consideration regarding market price and the allocation demand of assets and liabilities.

As of June 30, 2018, the total cash and deposits with the Central Bank increased by RMB7,374 million or 11.5% to RMB71,743 million as compared to the end of last year, primarily attributable to an increase in the Bank's deposits from customers which led to an expansion in the corresponding size of its deposit reserves.

As of June 30, 2018, the total deposits with banks and other financial institutions decreased by RMB2,385 million or 26.7% to RMB6,538 million as compared to the end of last year, primarily because the Bank adjusted the size of the deposits with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of June 30, 2018, the total placements with banks and other financial institutions increased by RMB1,076 million or 78.9% to RMB2,439 million as compared to the end of last year, primarily because the Bank adjusted the size of the placements with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the matching demand of assets and liabilities.

4.2 Liabilities

As of June 30, 2018, the Bank's total liabilities increased by RMB24,023 million or 5.0% to RMB499,922 million as compared to the end of last year.

	As of June 30, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Deposits from customers	**338,859.4**	**67.8%**	306,708.3	64.4%
Deposits from banks and other financial institutions	**44,564.9**	**8.9%**	39,650.8	8.3%
Debt securities issued	**65,411.5**	**13.1%**	74,128.6	15.6%
Financial assets sold under repurchase agreements	**27,427.0**	**5.5%**	40,809.8	8.6%
Placements from banks and other financial institutions	**11,719.5**	**2.3%**	5,717.1	1.2%
Borrowings from Central Bank	**4,033.7**	**0.8%**	1,322.9	0.3%
Tax payable	**371.2**	**0.1%**	984.9	0.2%
Derivated financial liabilities	**110.4**	**0.0%**	–	–
Other liabilities[1]	**7,424.6**	**1.5%**	6,576.8	1.4%
Total liabilities	**499,922.2**	**100.0%**	475,899.2	100.0%

Note:

(1) Consist primarily of interest payable, payment and collection clearance accounts, staff salaries payable, other tax payable, dividends payable, provisions and other payables.

4.2.1 Deposits from customers

As of June 30, 2018, the Bank's total deposits from customers increased by RMB32,151 million or 10.5% to RMB338,859 million as compared to the end of last year. It was primarily attributable to (1) the Bank's continued efforts to develop its corporate customers, resulting in an increase in its corporate deposits; (ii) initial results of its strategy of "Ruralization of Banking Services" (下鄉), leading to an increase in its township customer deposits;(iii)the Bank's continued efforts to promote product innovation, which effectively derived an increase in deposits.

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

	As of June 30, 2018		As of December 31, 2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate deposits				
Demand	**139,506.0**	**41.1%**	130,505.0	42.5%
Time	**60,149.0**	**17.8%**	51,452.0	16.8%
Sub-total	**199,655.0**	**58.9%**	181,957.0	59.3%
Personal deposits				
Demand	**50,157.0**	**14.8%**	48,420.3	15.8%
Time	**89,047.4**	**26.3%**	76,331.0	24.9%
Sub-total	**139,204.4**	**41.1%**	124,751.3	40.7%
Total deposits from customers	**338,859.4**	**100.0%**	306,708.3	100.0%

4.2.2 Deposits from banks and other financial institutions

As of June 30, 2018, the Bank's balance of deposits from banks and other financial institutions increased by RMB4,914 million or12.4% to RMB44,565 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from interbanks and other financial institutions according to market interest rates and fund needs.

4.2.3 Placements from banks and other financial institutions

As of June 30, 2018, the Bank's balance of placements from banks and other financial institutions increased by RMB6,002 million or 105.0% to RMB11,720 million as compared to the end of last year, primarily because the Bank adjusted the size of placements from banks and other financial institutions according to market interest rates and fund needs.

4.2.4 Debt securities issued

As of June 30, 2018, the Bank's balance of debt securities issued decreased by RMB87,17 million or 11.8% to RMB65,412 million as compared to the end of last year, primarily because the Bank optimized duration management and appropriately adjusted the size of interbank deposits issued according to the market conditions.

4.2.5 Financial assets sold under repurchase agreements

As of June 30, 2018, the Bank's financial assets sold under repurchase agreements decreased by RMB13,383 million or 32.8% as compared to the end of last year to RMB27,427 million, primarily because the Bank adjusted the size of financial assets sold under repurchase agreements based on the requirement of liquidity management.

4.3 Shareholders' Equity

As of June 30, 2018, the Bank's total shareholders' equity decreased by RMB977 million or 2.1% to RMB45,114 million as compared to the end of last year. The total equity attributable to shareholders of the Bank decreased by RMB1,003 million or 2.2% to RMB44,266 million as compared to the end of last year. The decrease in shareholders' equity was primarily attributable to(i) on January 1, 2018, the Bank started to implement new financial instrument standards to adjust the equity of owners at the beginning of the period on the basis of the differences between the original carrying amount of financial instruments and the new carrying amount on the date of implementing the standard; (ii) during the Reporting Period, the Bank paid dividends for the year ended December 31, 2017 with cash.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of total**	Amount	% of total
	(in millions of RMB, except percentages)			
Share capital	**20,075.0**	**44.4%**	20,075.0	43.5%
Capital reserve	**14,466.8**	**32.1%**	14,474.4	31.4%
Surplus reserve	**1,441.5**	**3.2%**	1,258.1	2.7%
General reserve	**6,641.6**	**14.7%**	6,386.3	13.9%
Re-evaluation and impairment reserve	**118.5**	**0.3%**	(938.9)	(2.0%)
Retained earnings	**1,522.2**	**3.4%**	4,014.0	8.7%
Equity attributable to shareholders of the Bank	**44,265.6**	**98.1%**	45,268.9	98.2%
Non-controlling interests	**848.5**	**1.9%**	821.7	1.8%
Total shareholders' equity	**45,114.1**	**100.0%**	46,090.6	100.0%

5. Off-balance Sheet Commitments

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

	As of June 30, 2018	As of December 31, 2017
	(in millions of RMB)	
Credit commitments		
Loan commitments	**4,820.1**	2,710.5
Bank acceptance	**34,345.9**	30,413.7
Letters of credit	**8,650.2**	4,448.4
Letters of guarantees	**2,531.1**	984.2
Total	**50,347.3**	38,556.8

6. Analysis on Loan Quality

In the first half of 2018, in face of complex economic and financial situation, the Bank further deepened the adjustment of credit structure, continued to strengthen credit risk management, optimized credit procedures and strengthened post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so that the loan quality was generally kept at a manageable level. As of June 30, 2018, the balance of non-performing loans of the Bank amounted to RMB4,114 million, representing an increase of RMB471 million as compared with the end of last year. The non-performing loan ratio was 1.88%, representing an increase of 5 BPs as compared with the end of last year. Special mention loan was 4.79%, representing an increase of 22 BPs as compared with the end of last year.

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by the Bank's five-category loan classification[(1)]. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of total**	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	**204,264.8**	**93.33%**	186,169.1	93.60%
Special mention	**10,477.7**	**4.79%**	9,091.3	4.57%
Substandard	**1,516.9**	**0.69%**	949.2	0.47%
Doubtful	**1,848.7**	**0.85%**	1,448.1	0.73%
Loss	**748.3**	**0.34%**	1,245.2	0.63%
Total loans and advances to customers	**218,856.4**	**100.00%**	198,902.9	100.00%
Non-performing loans and non-performing loan ratio[(2)]	**4,113.9**	**1.88%**	3,642.5	1.83%

Notes:

(1) The core definitions of credit asset classifications in 'Loan Risk Classifications Guiding Principles' are as follows:

Normal: The borrower can fulfil the contracts, and there is insufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special mention: The borrower has the ability to make current payments for the principal and interest, but there may be some issues that could have adverse impacts on the payments.

Substandard: The borrower's repayment ability has been evidently impaired and its normal income cannot repay the loan principal plus interest in full. Even with execution of guarantees, there may be some loss.

Doubtful: The borrower cannot repay the principal plus the interest in full. Even with the execution of guarantees, there will definitely be a significant loss.

Loss: After taking all possible actions or following all necessary legal procedures, the outcome of recovery for principal and interest is likely to be little or no recovery.

(2) Non-performing loan ratio is calculated by dividing non-performing loans by total loans and advances to customers.

6.2 Distribution of Loans and Non-Performing Loans by Product Type

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by product types.

	As of June 30, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio[4]	Loan amount	% of total	NPL Amount	NPL ratio[4]
	(in millions of RMB, except percentages)							
Corporate loans								
Short-term loans[1]	77,930.0	35.7%	2,553.6	3.28%	76,553.7	38.5%	2,107.6	2.75%
Medium-to-long-term loans[2]	47,367.4	21.6%	520.6	1.10%	36,295.9	18.2%	479.2	1.32%
Sub-total	125,297.4	57.3%	3,074.2	2.45%	112,849.6	56.7%	2,586.8	2.29%
Personal loans								
Personal residential mortgage loans	45,600.2	20.9%	29.4	0.06%	39,977.3	20.1%	3.8	0.01%
Personal consumption loans	20,165.0	9.2%	194.5	0.96%	13,494.0	6.8%	102.4	0.76%
Personal business loans	19,786.9	9.0%	815.1	4.12%	20,209.0	10.2%	948.2	4.69%
Other personal loans[3]	1,176.4	0.5%	0.7	0.06%	250.8	0.1%	1.3	0.56%
Sub-total	86,728.5	39.6%	1,039.7	1.20%	73,931.1	37.2%	1,055.7	1.43%
Discounted bills	6,830.5	3.1%	–	0.00%	12,122.2	6.1%	–	0.00%
Total	218,856.4	100.0%	4,113.9	1.88%	198,902.9	100.0%	3,642.5	1.83%

Notes:

(1) Include loans with maturity of one year or less and advances.

(2) Include loans with maturity of more than one year.

(3) Include primarily credit cards.

(4) Calculated by dividing non-performing loans in each product type by gross loans in that product type.

In the first half of 2018, the balance of corporate non-performing loans of the Bank amounted to RMB3,074 million, representing an increase of RMB487 million as compared with the end of last year. The non-performing loan ratio was 2.45%, representing an increase of 16 BPs as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the credit customers of the Bank were mainly small and medium corporate clients. They were affected greatly by the economic downside and their operating difficulties deteriorated repayment abilities.

The balance of personal non-performing loans of the Bank amounted to RMB1,040 million, representing a decrease of RMB16 million as compared with the end of last year. The non-performing loan ratio was 1.20%, representing a decrease of 23 BPs as compared with the end of last year. The personal non-performing loans of the Bank and non-performing loan ratio decreased mainly because (i) the Bank proactively responded to national policies by reinforcing credit structure adjustment and further developing personal credit business. As of June 30, 2018, the balance of personal loans amounted to RMB86,729 million, representing an increase of RMB12,797 million or 17.3% as compared with the end of last year; (ii) step up the efforts on reduction of non-performing loans and proactively reducing personal non-performing loans.

6.3 Distribution of Loans and Non-Performing Loans by Industry

	As of June 30, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio[(1)]	Loan amount	% of total	NPL Amount	NPL ratio[(1)]
	(in millions of RMB, except percentages)							
Manufacturing	29,831.5	13.6%	1,417.7	4.75%	30,642.5	15.4%	1,325.1	4.32%
Leasing and business services	20,606.3	9.4%	77.0	0.37%	16,556.3	8.3%	40.2	0.24%
Wholesale and retail	18,048.1	8.3%	655.7	3.63%	18,984.2	9.5%	561.9	2.96%
Real estate	17,557.3	8.0%	440.5	2.51%	11,424.0	5.7%	334.5	2.93%
Construction	9,736.2	4.5%	125.8	1.29%	8,856.7	4.5%	49.0	0.55%
Water, environment and public facility management	6,867.9	3.1%	6.0	0.09%	4,615.1	2.3%	6.0	0.13%
Electricity, gas and water production and supply	4,237.3	1.9%	13.0	0.31%	3,920.1	2.0%	54.9	1.40%
Agriculture, forestry, animal husbandry and fishery	4,116.5	1.9%	200.0	4.86%	4,283.4	2.2%	76.7	1.79%
Accommodation and catering	3,437.9	1.6%	53.5	1.56%	3,223.1	1.6%	80.8	2.51%
Mining	3,117.2	1.4%	11.3	0.36%	2,384.8	1.2%	5.0	0.21%
Education	2,645.2	1.2%	25.5	0.96%	2,270.4	1.1%	19.5	0.86%
Transportation, storage and postal services	2,011.2	0.9%	25.4	1.26%	2,084.7	1.0%	13.5	0.65%
Health, social security and social welfare	1,995.5	0.9%	8.0	0.40%	1,705.0	0.9%	8.0	0.47%
Others	1,089.3	0.6%	14.8	1.36%	1,899.3	1.0%	11.7	0.62%
Total corporate loans	125,297.4	57.3%	3,074.2	2.45%	112,849.6	56.7%	2,586.8	2.29%
Total personal loans	86,728.5	39.6%	1,039.7	1.20%	73,931.1	37.2%	1,055.7	1.43%
Discounted bills	6,830.5	3.1%	–	0.00%	12,122.2	6.1%	–	0.00%
Total	218,856.4	100.0%	4,113.9	1.88%	198,902.9	100.0%	3,642.5	1.83%

Note:

(1) Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

As of June 30, 2018, the non-performing corporate loans of the Bank mainly concentrated in the agriculture, forestry, animal husbandry and fishery, manufacturing and the wholesale and retail industry, with NPL ratio of 4.86%, 4.75% and 3.63%, respectively, of which:

(i) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry increased by RMB123 million as compared with the end of last year, with an increase of 307 BPs in NPL ratio, which was mainly attributable to the increase of NPL ratio in the industry as a result of production and operation difficulties in the agriculture, forestry, animal husbandry and fishery industry and a weakened repayment capacity after being affected by the economic downturn.

(ii) the balance of non-performing loans in the manufacturing industry increased by RMB93 million as compared with the end of last year, with an increase of 43 BPs in NPL ratio, which was mainly attributable to the increase of NPL ratio in the industry as a result of production and operation difficulties in the traditional manufacturing industry and a weakened repayment capacity after being affected by the economic downturn.

(iii) the balance of non-performing loans in the wholesale and retail industry increased by RMB94 million as compared with the end of last year, with an increase of 67 BPs in NPL ratio, which was mainly attributable to the effect of prolonged trade receivables cycle and slowdown of recollection on the capital turnover, and worsen operating conditions in the wholesale and retail industry after being significantly affected by the slowdown of the PRC economy development.

6.4 Distribution of Loans and Non-Performing Loans by Collateral

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

	As of June 30, 2018				As of December 31, 2017			
	Loan amount	% of total	NPL Amount	NPL ratio(1)	Loan amount	% of total	NPL Amount	NPL ratio(1)
	(in millions of RMB, except percentages)							
Unsecured loans	14,430.0	6.6%	87.3	0.60%	9,202.4	4.6%	33.3	0.36%
Guaranteed loans	76,358.9	34.9%	2,462.0	3.22%	74,273.7	37.3%	2,150.9	2.90%
Collateralised loans	108,918.8	49.8%	1,517.6	1.39%	89,632.8	45.1%	1,387.0	1.55%
Pledged loans	19,148.7	8.7%	47.0	0.25%	25,794.0	13.0%	71.3	0.28%
Total	218,856.4	100.0%	4,113.9	1.88%	198,902.9	100.0%	3,642.5	1.83%

Note:

(1) Calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

As of June 30, 2018, the balance of our guaranteed non-performing loans increased by RMB311 million from the end of last year, representing an increase in non-performing loan ratio of 32 BPs, primarily because (i) borrowers of guaranteed loans are mostly small and medium enterprises which are vulnerable to risks under current economic situations, the decline in their operations resulted in the decrease in performance ability; (ii) the weak guarantee capacity of the guarantors and their failure to repay loans on time contributed to the increase in our guaranteed non-performing loans and non-performing loan ratio.

As of June 30, 2018, the balance of our collateralised non-performing loans increased by RMB131 million from the end of last year, representing a decrease in non-performing loan ratio of 16 BPs, primarily because (i) with the rapid expansion of loan scale and the relatively high proportion of small enterprises of loan customers of the Bank, some enterprises experienced decline in operations and were exposed to risks under the current economic situation which resulted in an increase in collateralised non-performing loans; (ii) the Bank increased the granting of secured loans. As of June 30, 2018, the balance of our collateralised loans amounted to RMB108,919 million, representing an increase of RMB19,286 million or 21.5% as compared to the end of last year.

6.5 Borrowers Concentration

As of June 30, 2018, balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of June 30, 2018, loan balance of the top ten single borrowers (excluding group borrowers) of the Bank, none of which was classified as non-performing loan.

	Industry	As of June 30, 2018 Balance	% of total loans	% of net capital
		(in millions of RMB, except percentages)		
Borrower A	Real estate	**1,450.0**	**0.8%**	**3.1%**
Borrower B	Real estate	**1,268.0**	**0.6%**	**2.7%**
Borrower C	Accommodation and catering	**1,192.2**	**0.5%**	**2.5%**
Borrower D	Leasing and commercial services	**912.5**	**0.4%**	**1.9%**
Borrower E	Mining	**858.7**	**0.4%**	**1.8%**
Borrower F	Leasing and commercial services	**752.0**	**0.3%**	**1.6%**
Borrower G	Leasing and commercial services	**699.0**	**0.3%**	**1.5%**
Borrower H	Real estate	**679.0**	**0.3%**	**1.4%**
Borrower I	Electricity, heat, gas and water production and supply	**655.5**	**0.3%**	**1.4%**
Borrower J	Real estate	**650.0**	**0.3%**	**1.4%**
Total		**9,116.9**	**4.2%**	**19.3%**

As of June 30, 2018, the loan balance of the largest single borrower of the Bank was RMB1,450 million, accounting for 0.8% of the total amount of loans of the Bank, and the total amount of loans of the top ten single borrowers was RMB9,117 million, representing 4.2% of the total amount of loans of the Bank.

6.6 Overdue loans

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

	As of June 30, 2018 Amount	As of June 30, 2018 % of total	As of December 31, 2017 Amount	As of December 31, 2017 % of total
	(in millions of RMB,except percentages)			
Current loans	**206,703.2**	**94.45%**	188,348.9	94.69%
Overdue loans[1]				
– Up to 3 months	**3,237.8**	**1.48%**	2,496.9	1.26%
– Over 3 months up to 1 year	**4,577.9**	**2.09%**	4,218.3	2.12%
– Over 1 year up to 3 years	**4,008.1**	**1.83%**	3,569.1	1.79%
– Over 3 years	**329.4**	**0.15%**	269.7	0.14%
Sub-total	**12,153.2**	**5.55%**	10,554.0	5.31%
Total loans	**218,856.4**	**100.00%**	198,902.9	100.00%

Note:

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

As of June 30, 2018, the amount of overdue loans totalled RMB12,153 million, representing an increase of RMB1,599 million as compared with the end of last year. Overdue loans accounted for 5.55% of the total loans, representing an increase of 24 BPs as compared with the end of last year.

7. Business Segment Report

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

	For the six months ended June 30, 2018 Amount	For the six months ended June 30, 2018 % of total	For the six months ended June 30, 2017 Amount	For the six months ended June 30, 2017 % of total
	(in millions of RMB, except percentages)			
Corporate banking business	**4,261.6**	**56.2%**	3,566.3	60.7%
Retail banking business	**1,765.9**	**23.3%**	1,549.1	26.4%
Financial markets business	**1,504.9**	**19.8%**	706.5	12.0%
Other businesses	**49.5**	**0.7%**	53.9	0.9%
Total operating income	**7,581.9**	**100.0%**	5,875.8	100.0%

8. Analysis on Capital Adequacy Ratio

The Bank continued to optimize its business structure and strengthen its capital management. As of June 30, 2018, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 11.59%, 10.75% and 10.74%, respectively, representing a decrease of 1.56 percentage points, 1.41 percentage points and 1.41 percentage points, respectively, 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 China Banking and Insurance Regulatory Commission (the "CBIRC"). The changes in capital adequacy ratio were mainly due to the increase of risk-weighted assets resulting from the increase in size of assets of the Bank.

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

	As of June 30, 2018	As of December 31, 2017
	(in millions of RMB, except percentages)	
Share capital	**20,075.0**	20,075.0
Valid portion of capital reserve	**14,436.9**	13,535.5
Surplus reserve	**1,441.5**	1,258.1
General reserve	**6,641.6**	6,386.3
Retained earnings	**1,522.2**	4,014.0
Valid portion of minority interests	**332.5**	301.4
Total Core tier-one capital	**44,449.7**	45,570.3
Core tier-one capital deductions	**(674.8)**	(676.3)
Net core tier-one capital	**43,774.9**	44,894.0
Other tier-one capital	**43.9**	39.9
Net tier-one capital	**43,818.8**	44,933.9
Net tier-two capital	**3,416.9**	3,635.1
Net capital base	**47,235.7**	48,569.0
Total risk-weighted assets	**407,547.8**	369,459.2
Core tier-one capital adequacy ratio	**10.74%**	12.15%
Tier-one capital adequacy ratio	**10.75%**	12.16%
Capital adequacy ratio	**11.59%**	13.15%

9. Business Review

9.1 Corporate Banking Business

Both domestic and overseas economic situations witnessed profound and complicated changes. In response, the Bank carefully followed and assessed the market demand. The Bank actively optimized industry distribution of assets, strengthened customer service abilities, vigorously developed transaction banking business, pushed forward the development of innovative businesses such as investment banking, and enhanced its support on the real economy by adhering to the "customer-oriented" approach and implementing the three key development strategies of "featuring products in traditional business, accomplishing breakthrough in innovative business and taking first-mover advantage in developing future banking". As a result, the Bank's capability for sustainable development of corporate banking business was continuously enhanced and market competitiveness of this business segment was further escalated during the Reporting Period.

9.1.1 Corporate deposits

The Bank enjoyed a sound momentum in the development of its corporate deposit business as it proactively expanded service channel and continued to provide new services and products. As at the end of the Reporting Period, the Bank's corporate deposit balance was RMB199,655 million, representing an increase of RMB176,98 million as compared to the beginning of the year. The Bank ranked third in the industry of Henan Province in terms of time-point increment of corporate deposits and ranked third among peers in terms of market share increment. The market share increased by 0.4% as compared to the beginning of 2018, and the deposits grew by 10.0% in terms of time-point increment, representing 6.0 percentage points higher than the average market growth rate.

The Bank endeavored to improve its endogenous growth momentum of corporate deposit through enhancing the level of comprehensive customer service by relying on transaction products such as cash management, supply chain finance and trade finance. It stepped up the marketing of low-cost stable settlement deposits, fully utilized its own strengths of traditional cooperation between banks and the government, and broadened the sources of fiscal deposits and institutional customers deposits. In addition, the Bank gradually diversified its corporate liability products system in respond to the changing customer demand under interest rate liberalization and actively developed structured deposit products to improve customer service capability after obtaining financial derivatives' qualification. The Bank issued a total of RMB1,890 million structured corporate deposits since its launch in May 2018.

9.1.2 Corporate loans

Based on the economic development reality of Henan Province, the Bank insisted on returning to original sources and supported the development of the real economy by encouraging and guiding the flow of credit resources to the real economy, and optimizing the credit structure continuously. As at the end of the Reporting Period, the Bank's total corporate loan was RMB132,128 million, representing an increase of RMB7,156 million, or 5.7% as compared to the beginning of 2018.

The Bank sticked to the customer-oriented approach and developed the customer segmentation operating approach. Thus, the customer base was consolidated and the management performance was improved relentlessly. As at the end of the Reporting Period, corporate clients of the Bank reached 179,000, representing an increase of 3,000 over the beginning of 2018. The Bank further optimized its customer segmentation service system by providing layered services for different customers, for example, the head office led marketing service for the Head Office strategic customers the sub-branches focused on marketing service for branch strategic customers and the bulk, standard and online marketing services were mainly provided for micro and medium enterprises.

Leveraging on strategic cooperation with the 18 cities and related institutions in Henan Province, the Bank further consolidated the geographical advantages by actively participating in the construction of major projects in Henan Province and continuously improving the efficiency of its service to the real economy. During the Reporting Period, the Bank supported construction of the real economy in Henan Province through practical actions such as attending "The Seminar & Signing Ceremony of Strategic Agreement on Supporting Development of the Real Economy in Henan Province"; it also signed a strategic cooperation agreement with the China Development Bank Henan branch, pursuant to which the parties took full use of their own geographical advantages and opened up each other's strategic channels to achieve mutual benefit and resources sharing, thus promoting its channel and capability to serve economy in Henan Province. By focusing on improving quality and efficiency of urban construction in Henan Province, the Bank fully supported the "Hundred Cities Construction and Quality Improvement Program" (百城建設提質工程). During the Reporting Period, 61 major projects were launched and the total amount of supportive funds provided by the Bank was RMB9,391 million.

9.1.3 Small and micro enterprises loans

The Bank took an initiative to undertake social responsibilities and adopted various measures to help SMEs solve problems such as difficulty in accessing finance and expensive financing costs, in a bid to consolidate the foundation for business and give support to healthy development of SMEs. During the Reporting Period, the Bank registered RMB36,711 million balance of single-client credit to SMEs lower than RMB10 million, representing an increase of 2.2% over the corresponding period of the previous year; and 42,600 accounts of small and micro enterprise customers, an increase of 4,900 accounts from the previous year.

The Bank attached much importance to SMEs financial service by continuously focusing on changes in SMEs policies, convening special meetings, formulating financial service plans for SMEs and clarifying the division of responsibilities among departments to ensure the orderly development SMEs. At the same time, the Bank continued to refine the service mechanism for small and micro enterprises. Firstly, the Bank established a three-level interaction marketing model for the Head Office, branches and sub-branches and an operating management system including the front, middle and back office. Secondly, the Bank set up special resources to provide special credit lines, formulated differentiated pricing, and allocated special marketing expenses. Thirdly, the Bank separately set out SMEs credit plans and strengthened its assessment to ensure accomplishment of SMEs credit tasks of 2018.

The Bank built a relatively comprehensive financial service product system for small and micro enterprises, and developed a variety of differentiated products such as "Tax Receipt Loans (稅單貸), Science and Technology Loans (科技貸), Zheng Cai Dai (政採貸), Yong Xu Dai (永續貸), and Small Secured Loans" to meet the financing needs of small and micro enterprises. The customer are served in batches as a result of the supply of standard products and customized service plan. A platform to facilitate cooperation between banks and the government was established to communicate with the finance, industry and commerce, tax, technology and other departments, and a full life cycle financing service plan has worked out. Both customer experience and work efficiency were improved by virtue of big data as well as Internet+.

9.1.4 Investment banking

During the Reporting Period, the Bank took an initiative to adapt to the regulatory situation. Taking roots in supporting the local economic development of Henan Province, it continuously promoted the innovation of investment banking product system to meet the financial needs of the real economy. Several innovative projects and products were highly recognized by the market, resulting in rapid escalation of the market influence and leading to good results of transformation development. In addition, stable and long-term cooperative relationship with corporate customers in a wide range of industries was established. As at the end of the Reporting Period, the balance of structured finance offered by the Bank to corporate banking customers amounted to RMB88,559 million, representing an increase of 11.7% as compared to the beginning of 2018.

Key operation indicators recorded stable growth. During the Reporting Period, the Bank successfully issued the first phase of green financial bonds and innovative start-up financial bonds. Issue size of the innovative start-up financial bonds ranked first among that of the first batch of issuers in China.

Investment banking product system was consistently diversified. Based on the steady operation of investment banking business such as financial advisory service, consulting, and structured financing, the Bank continued to promote utilization of innovative products such as debt financing programs. As a result, asset securitization business experienced rapid development. The Bank completed listings of four debt financing programs with a total amount of RMB3 billion and executed an accounts receivables financing plan business on Beijing Financial Assets Exchange with an amount of RMB220 million. Meanwhile, the Bank obtained approval of the business qualification for securitization of non-standard asset from Shanghai Stock Exchange.

The strategic work was filled with various highlights. With the acceleration of internationalization and globalization, and benefiting from the favorable policies on offshore investing and financing, the Bank established a cross-border business team which assisted enterprises in Henan Province to make constant breakthroughs in offshore capital market, including successfully executing four overseas bonds business, helping customers realize resources allocation at home and abroad and lowering capital use cost for customers, all of which contributed to development of local economy.

9.1.5 Transaction banking

The Bank adhered to its future layout by actively promoting the establishment of the online system for transaction banking and implementation of key businesses. During the Reporting Period, the Bank actively consolidated resources by leveraging on financial technology and the advantages of extensive geographical coverage, developed transaction banking business such as cash management, bills pool, online supply chain finance and trade finance, deepened the upstream and downstream cooperation with the core enterprises, expanded the customer base and extended the industrial chain.

Cash management

The Bank offered cash management financial services to its corporate banking customers. It adopted a designed approach with parameters, components and customization to research and develop cash management products with high standards. The products that have been completed and launched so far included physical cash pool, virtual cash pool, corporate universal account, corporate intelligent deposits, account alerts and group interest optimization. As at the end of the Reporting Period, there were 1,639 cash management customers, representing a year-on-year increase of 141.7%; the aggregated time point balance of RMB deposits was RMB33,206 million, representing a year-on-year increase of 15.9%; the average daily balance was RMB29,829 million, representing a year-on-year increase of 21.2%; the total transaction amount of the cash management business reached RMB376,200 million in the first half of 2018.

Bills pool

The bills pool business of the Bank experienced constant upgrades and optimization and formed a comprehensive bill assets solution with a combination of both domestic and foreign currencies as well as on- and off-balance sheet since its commencement. The bills pool business of the Bank helped corporate customers to reduce the custodian risk of bills, to lower the financing cost and to increase the liquidity of bills assets with a package of solutions. During the Reporting Period, there were 400 contracted customers with a total financing amount of RMB2,790 million.

Online supply chain finance

During the Reporting Period, the Bank actively put forward its online supply chain finance business transformed to become online, embedded, scenarios and platform oriented, striving to aggressively develop upstream and downstream customers along the industrial chain to which its core corporate banking customers belong. The Bank also built an industry financial ecosystem based on its efficient online supply chain financial service model. During the Reporting Period, an addition of 244 customers accessed the online supply chain finance system, with an aggregate amount of RMB6,977 million raised.

Trade finance

The Bank had established a trade finance service system with diversified channels and comprehensive products, which could provide convenient and one-stop comprehensive financial service for foreign trade such as cross-border e-commerce, general international trade, manufacture trade and service trade. During the Reporting Period, the transaction volume of the Bank's trade finance services amounted to RMB17,232 million, representing an increase of RMB8,915 million as compared to the beginning of 2018; the Bank's accumulated international settlement transaction volume amounted to US$1,669 million in sum, representing an increase of US$615 million as compared to the beginning of 2018. As at the end of the Reporting Period, the Bank has established cooperative relationship with 505 corporate banking customers for trade finance services, and has established agent bank relationship with 228 domestic and foreign banks.

Corporate Online Banking

The Bank continuously develop new applications for corporate online banking, optimized customer experience and improved servicing capability of the online corporate banking business, effectively diverted and mitigated counter pressures of outlets. As of the end of the Reporting Period, the Bank's corporate online banking customers aggregated to 96,414, representing an increase of 11,947 as compared to the beginning of 2018. The accumulated transaction amount increased by RMB859,380 million, and the total transactions boosted by 3,058,385 in number as compared to the beginning of 2018, accounting for 88.70% of the total number of transactions by corporate banking customers during the same period.

9.2 Retail Banking Business

In face of the impact of financial technology on traditional retail banking business, the retail banking business of the Bank actively implemented its strategy of "Internetization and Ruralization of Banking Services" (上網下鄉) and promoted the working requirements of "three stresses and one insistence" (三抓一堅持) on the basis of its "three major development strategies" (三大發展戰略), put equal emphasis on extensional expansion and connotative development, paid equal attention to developing new customers and maintaining existing customers, kept establishing online business systems, strived to promote product innovation, deepened customer operation, established an ecosystem of high-frequency scenarios, sped up the transformation of intelligent network and promoted the transformation of retail banking to become digitized, which effectively enhanced the service abilities of the Bank and the satisfaction level of customer experience.

9.2.1 Strategic layout

For comprehensively implementing the "internet" strategy, the Bank made layout of internet finance with an "open, win-win and sharing" concept, focused on building an online channel orienting mobile finance, such as mobile banking, direct sales banking, community banking and farmers-benefiting APP to gradually improve the retail online product system. In implementing the "rural" strategy, the Bank comprehensively pursued the development of the "three-in-one" system comprising the county sub-branches, rural township sub-branches and farmers-benefiting services to bring the "concepts, capital, channels, products and services down to earth" to help rural revitalization by insisting to solve rural issues with internet thinking. In 2018, the implementation of the strategy becomes more detailed, the brand influence of beneficial farmers is ever increasing and the farmers-benefiting business has climbed up to a new level. As of the end of the Reporting Period, the Bank had established 120 county sub-branches and 37 rural township sub-branches in Henan province, and deployed 3,400 farmers-benefiting services points, covering more than 6 million customers in county, township and rural areas. In terms of assets, liabilities, wealth management as well as payment and settlement business, the Bank launched four major farmers-benefiting product systems comprising"Yuan Hui Dai (原惠貸)、Yuan Hui Cun (原惠存)、Yuan Hui Ying (原惠盈)、Yuan Hui Kuai (原惠快)", striving to solve the pain points of farmers and confirm the development of farmers-benefiting APP, achieving "online+offline" customer operation model and improving the new standards of farmers-benefiting finance services and establishing a rural financial service ecosystem by centering on "finance+non-finance" services.

9.2.2 Business development

9.2.2.1 Retail Deposits

During the Reporting Period, with the focus on retail business innovation, the Bank introduced a characterized retail banking product system and launched several liability products such as structured deposits and random deposits, wealth management products such as family trusts, asset management plan by securities company and Zhongyuan Yuan Bao (中原原寶), and payment products such as Smart POS (智慧POS), Aggregated Unionpay QR Code (聚合銀聯二維碼) and Community APP (社區APP) to meet diversified customer demands. On the basis of consolidating the market shares of urban retail business, the Bank continuously enhanced the marketing and development capacity, market competitiveness and market shares of county sub-branches, and actively deployed township branches and rural service points to make up for market gaps and extend the radius of our bank's offline channel services. The Bank also endeavored to improve the retail business system, deepen customer operation, expand the retail business channels, expedite the intelligent transformation of branches and enhance user experience to strengthen comprehensive customer service abilities. As of the end of the Reporting Period, the balance of retail deposits of the Bank amounted to RMB139,204 million, representing an increase of 11.6%. The total amount, increment and market share of retail deposits ranked top among regional urban commercial banks.

9.2.2.2 Retail Loans

During the Reporting Period, the Bank continued to enrich the retail loan product systems, and to fully support local economic development and serve the people's livelihood by relying on personal loan business. First, the Bank continued to optimize the business of Yong Xu Dai (永續貸) and strengthened process and timeliness management to realize the coverage of online Yong Xu Dai (永續貸) products across Henan Province and serve a wider range of customers. Meanwhile, in light that the country encouraged financial institutions to release the loan difficulties of small and medium-sized enterprises and small and micro customers, the Bank innovatively promoted operating Yong Xu Dai (永續貸), aiming to satisfy the capital needs of small and micro business owners and individual industrial and commercial businesses for production and operation. Second, the Bank continued to optimize its online credit consumer loan business, namely "Miao Dai (秒貸), to improve its business efficiency, enhance user experience and meet customers' flexible capital needs. Third, in response to the government's call, the Bank took the lead in launching online approval and operation of small-sum guarantee loans to effectively serve small and micro customers. During the Reporting Period, the size of our personal loan business grew steadily with sound asset quality and risks under control. As of the end of the Reporting Period, the total personal loans of our Bank amounted to RMB86,729 million, representing an increase of RMB12,797 million as compared to the beginning of 2018. The market share increment of retail loan assets ranked third in Henan Province. The default rate of personal loans was 1.20%, representing a decrease of 23 percentage points as compared to the beginning of 2018.

9.2.2.3 Bank Cards

The Bank's debit card business is based on four categories of cards, i.e. ordinary card, gold card, platinum card and diamond card, complemented with customized cards such as co-branded cards and featured cards, which constantly enriches and improves online and offline card usages channels for clients. In the first half of 2018, the Bank developed featured cards including "Jia He Card" (家和卡) and "Ding Xin Card" (鼎薪卡) and planned to issue these cards in the second half of the year. As of the end of the Reporting Period, the Bank had issued a total of 10,525,600 debit cards, representing an increase of 856,000 as compared to last year.

The credit card of the Bank can be divided into four card grades, i.e. ordinary, gold, platinum and diamond card. According to the requirements of users, the Bank launched ETC Co-branded Card (ETC 聯名卡), City Impression Card (城市印象卡) and other featured cards, striving to provide customers with better card usage experience. City Impression Cards (城市印象卡) integrated local cultural and historical characteristics and provided many benefits in annual travel tickets and people's livelihood in high-frequency scenes, which has covered 15 cities in Henan Province at present. ETC credit card is specially designed for car owners, providing customers with services integrating cars and life as a whole with mobile phone application, fast card dispensing, free home installation of ETC, and multiple benefits such as traffic discounts and fuelling discounts. As of the end of the Reporting Period, a total of 332,478 credit cards were issued, including 25,840 corporate credit cards in total. An aggregate of 67,314 ETC cards and 190,094 City Impression Card (城市印象卡) were issued. The balance of loans exceeded RMB1,176 million, including RMB121 million installment loans.

9.3 Financial Markets Business

The qualification for financial market business was obtained and a sound product system was formed. The Bank successively obtained the qualifications for basic derivative products, first-class dealer for open market and state treasury cash tender, which further enriched the varieties of the Bank's financial market business.

Financial interbank business accelerated its development by complying with regulatory requirements, paying attention to macroeconomic changes and focusing on the original source. The Bank returned to its original financial interbank business, strengthened interbank capital exchange, and played a role in regulating liquidity. The Bank served interbank customers and carried out multi-directional cooperation according to customers' different demands for assets and liabilities, further improving its awareness in the interbank market. The Bank continued to optimize its investment portfolio with steady earnings growth.

During the Reporting Period, our wealth management products became increasingly diversifiable. The launch of the first net-worth wealth management product of the Bank presents more diversified options to consumers. During the Reporting Period, the Bank had a total of 471 existing wealth management products with a scale of RMB46,565 million, representing an increase of RMB497 million as compared with the beginning of 2018.

During the Reporting Period, wealth management products under the Bank's Heyday series operated smoothly, creating stable gains for customers. During the Reporting Period, the Bank issued a total of 608 wealth management products, amounting to RMB76,978 million in aggregate.

9.4 Internet Finance Business

9.4.1 Development of internet finance business

The Bank has been actively establishing an ecosystem in terms of food, small and micro enterprises, communities and primary and middle schools, and comprehensively enhanced the maintenance and management of customers. On June 9, 2018, Zhongyuan gourmand map characterized by "complete gourmet, wide platform, preferential price, sufficient specialties, fast payment and convenient use" was officially launched, which fully kicked off the establishment of the ecosystem. The Bank will comprehensively build the ecosystem by following "customer, information, platform and channel" sharing model and adhering to multi-layered customer management. At the same time, by adopting the "customer-oriented" approach and science and technology support, the Bank will build a panoramic and one-stop mobile financial platform by fully leveraging on the Internet, cloud computing and the big data, aiming to provide customers with intelligent and personalized financial services. For instance, in addition to the basic financial services such as account inquiry, transfer, wealth management, payment, credit card and loan, the Bank's version 4.0 Mobile Banking also includes design experience, smart investment advisors, smart loans, smart search, User Growth System (用戶成長體系), Thousand Faces (千人千面) and other personalized financial services. The product won the "2017 Annual Financial Technology Jiepu Award- the Best Internet Finance Innovation Award". As of the end of the Reporting Period, the total number of mobile banking users of the Bank reached 3,175,500, and the total number of personal internet banking users amounted to 525,900. The number of fans of WeChat bank was 1,772,800, and the number of WeChat bank affiliated card customers reached 816,200 in total.

The mobile banking business has continued to grow. In the first half of 2018, the number of incoming calls of the customer service centers was 1,082,024, and the number of manual operation calls was 583,215, representing an increase of 51.9% as compared to the numbers in the second half of 2017. Total number of manual call received was 456,545, with a get-through rate of 78.3%, customer satisfaction level at 99.7% and online customer service turnover rate of 26.4%. Since April 2018, the customer center conducted the credit card incoming calls installment marketing business. As of June 30, 2018, the total principal of the installment was RMB11.51 million.

9.4.2 Development of direct sales banking business

The direct sales banking business of the Bank strived to build the best financial technology open platform for real estate mortgage loan in China by focusing on "the whole-process intelligent technology service ability of the owner's borrowing" and "the empowering ability of involved housing ecology". The Bank upgraded its product, technology and business models by focusing on its hit product "Yong Xu Dai" (永續貸), and independently developed a credit business management platform with the characteristics of distributed and micro services. The Bank has successively launched more than 100 product functions, and has taken the lead in realizing the online real estate mortgage loan services. The Bank has become one of the domestic service banks with the best experience and highest efficiency in the field of real estate mortgage loans.

By making full use of the big data and artificial intelligence technology, the direct sales banking business has gained leading advantages in risk management, operation, and customer attraction in the industry, and gradually built scene platforms to empower other financial institutions to carry out businesses. By successively entering into contracts with nearly ten banks including Bank of Shanghai, Shanghai Rural Commercial Bank and Changchun Development Rural Commercial Bank, and trust companies, the Bank leveraged out its technical service capacity in the field of real estate mortgage loans.

As of the end of the Reporting Period, the size of the Bank's Yong Xu Dai (永續貸) increased by RMB13,460 million with the number of customers increasing by 26,373.

9.5 Subsidiaries Business

9.5.1 County banks business

As of the end of the Reporting Period, the Bank held 51.72%, 51.00%, 51.00%, 51.00%, 43.69%, 51.02%, 51.00%, 41.00% and 31.54% interests in Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Defeng County Bank Co., Ltd., (林州德豐村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), Lushi Zhongyuan County Bank Co., Ltd.(盧氏中原村鎮銀行股份有限公司), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司), respectively, which are sponsored by the Bank. Of those nine county banks, the Bank was aligned with three County banks not controlled by it through acting-in-concert agreements.

Those nine county banks provide local corporates and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intend to incorporate those nine county banks into the Bank's comprehensive service offering channels, to take advantages of their existing local market position and customer base, thereby allowing us to further penetrate our services and raise the Bank's brand awareness.

Those nine county banks adhere to their market positions of serving "agriculture, rural areas and farmers" (三農) and "small and micro enterprises" (小微) and extend credit in the principle of "micro, mobile and disperse" (小額、流動、分散). Their scale of assets keeps expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of the end of the Reporting Period, the Bank's total assets amounted to RMB10,401 million, representing an increase of RMB1,114 million, or 12.0%, as compared to the beginning of 2018. The balance of deposits amounted to RMB8,393 million, representing an increase of RMB980 million, or 13.2%, as compared to the beginning of 2018. The Bank's total loans amounted to RMB6,746 million, representing an increase of RMB409 million, or 6.5%, as compared to the beginning of 2018.

Those nine county banks are independent legal entities regulated by the CBIRC. The Bank respects their respective independent operation of those nine county banks and strives to maintain their autonomous operation. The Bank believes that an autonomous operation business model enables those nine county banks to leverage their local networks and customer relationships, and be more responsive to changes of the market.

9.5.2 Consumer finance company business

The Bank initiated the establishment of Consumer Finance Company with registered capital of RMB800 million and its shareholding of 78.13% was held by the Bank. Consumer Finance Company has officially been in operation since December 30, 2016 and its principal businesses include: (1) extending individual consumer loans; (2) deposits taking from domestic subsidiaries of its shareholders and from its domestic shareholders; (3) incurring borrowings from domestic financial institutions; (4) issuing financial bonds upon approval; (5) engaging in domestic inter-bank lending; (6) engaging in consulting and agency businesses relating to consumer finance; (7) acting as sales agent for insurance products relating to consumer loans; (8) engaging in fixed-income securities investment; and (9) other businesses approved by the CBRC.

Since its operation of business, Consumer Finance Company has upheld the development philosophy of technology-focused and innovation-driven. Leveraging the Bank's advantages on outlets and channels, it consolidated its position in Henan, penetrated to other regions in the PRC, rooted in areas and actively explored development models of internet finance. As of the end of the Reporting Period, the accumulative loan exposure of Consumer Finance Company amounted to RMB13,379 million, the balance of loans was RMB5,621 million, the loan exposure extended accumulatively exceeded 4.28 million loans and the accumulated revenue was RMB157 million, providing consumer finance services for 1.5684 million customers.

In terms of information technology, Consumer Finance Company attaches great importance in research and application of technologies, such as big data analysis, data mining, cloud computing and biological information acquisition, and proactively constructs a safe, rigorous and self-controlled information system.

In terms of risk control, Consumer Finance Company focuses on improving its ability to identify relevant risks, enhances risk management, strengthens the transmission of risk philosophies, maintains the risk bottom line, and gradually develops a comprehensive risk management system with close integration of pre-lending, lending and post-lending, independent risks and mutual restraint.

10. Risk Management

Pursuing the goal of "developing Zhongyuan Bank into a leading commercial bank" and the theme of "compliance management, high quality and efficiency, innovation, sustainable development", and adhering to the idea of active management of risks and risk creating value, the Bank always holds robust risk preference, constantly deepens system construction, optimizes and adjusts credit structure, strengthens the fine management, and promotes the comprehensive risk prevention and control. By the end of the Reporting Period, the Bank has not experienced any major risk incidents, and has achieved good results in its risk management work.

10.1 Credit risk management

Credit risk refers to the risk of loss due to the default by the borrower or the counterparty.

The Bank implements whole process management for its credit granting business and establishes an effective mechanism for check and balance among all positions. The Bank assigns the credit granting business management accountability, work standards and due diligence requirements in respect of credit granting acceptance and investigation, risk assessment and review and approval, the signing of contracts, the issuance and payment as well as post-granting monitoring to specific departments and positions, and also establishes corresponding assessment and punishment mechanisms.

During the Reporting Period, the Bank has further optimized its systems and procedures, strictly implemented credit policies, proactively organized and implemented inspections and examinations of risks, strengthened system construction and strictly controlled the credit risks.

Firstly, at the combination of changes in the internal and external environments, the Bank further improve the system construction. Since 2018, the Bank has further improved a number of credit risk management related systems pursuant to regulatory needs and at the combination of operation practices by successively implementing or amending more than 30 systems in terms of credit granting approval, risk management and credit management, and issuing more than 10 guidance opinions with respect to risk control and business promotion, which pushed the Bank to change from controlling risks to proactively managing risks.

Secondly, effectively implement the credit policies with the credit structure evidently optimized. The Bank formulates and issues the Credit Policy Guidelines of Zhongyuan Bank for 2018 (中原銀行授信政策指引(2018年)). The Bank focuses on supply-side structural reform, implements national macroeconomic policies and industrial policies, and guides the optimization and adjustment of industrial structure in the industry. The Bank adheres to differentiated and distinctive development in the region, and increases the availability of credit in key cities such as Zhengzhou and Luoyang and key regions such as Henan Free Trade Zone. With respect to the client, the Bank implements the strategic client list system management, further promotes the financing mode of "commercial bank + investment bank + transaction bank", and maintain good relationship with high-value clients. Meanwhile, the Bank supports the technological transformation and environmental transformation of leading enterprises in industries with excess production capacity, and takes the initiative to withdraw the businesses from enterprises which are lacking market or prospect, poorly managed or fail to satisfy environmental standards. As of the end of June 2018, the proportion of credits granted to industries which fell into the active support category significantly expanded; while the proportion of credits granted to industries which fell into the cautionary support and strict limit categories significantly decreased, indicating the credit policies of the Bank had been well and thoroughly implemented.

Thirdly, strengthen authorization management and grasp asset quality admission. The Bank develops and issues credit extension and authorization scheme of 2018, and adjusts authorization of specific products and specific businesses of branch according to characteristics of new credit extension violation of each branch; insists on implementing "on-site visit and review" policy to important project and new project and promptly intercepts high-risk credit extension projects.

Fourthly, strengthen post-loan management and increase accountability efforts. The Bank further promotes and implements construction of credit management standardization to form relatively improved post-loan management process system; organizes to develop special inspections, such as major inspection of 2018 on credit business, credit extension business self-inspection of real estate and institutional clients and risk investigation of third-party cooperation organization to eliminate risks and hidden dangers promptly; strengthens active exit management, determines list of 2018 on active exit company client and implements exit steadily to consolidate the credit risk management basis of the Bank.

Fifthly, continuously promote “the old reduction and the new control” work to maintain stability of asset quality of the Bank. The Bank further implements mechanism of bank leadership responsibility scope assignment, and focuses on “one policy to one bank, one policy to one household and numerous policies to one household” for important banks and households to resolve high-risk credit extension and non-performing asset actively. As of the end of June 2018, compared with the beginning of 2018, various indicators of the Bank on asset quality had been basically flat.

Sixthly, strengthen system construction and improve credit risk management levels. The Bank highly values the construction of credit risk management tools by continues to increase its investments in scientific and technological resources and proactively introduces big data analysis tools to improve the credit risk management levels. At present, the Bank is proactively promoting the construction of big data retail risk control projects. In particular, the credit card approval strategy and model have been put into operation, which can call multiple external data of various platforms online, implement automatic analysis and inspection with more than 1,000 rules, thus initially realizing the organic combination of approval efficiency, customer experience and risk control. After the launch of big data retail risk control projects, the Bank will made anti-fraud model and retail credit risk assessment model all-in-one to improve scientificity in credit examination, approval and decision-making

10.2 Market risk

Market risk refers to risk of loss in the on- and off-balance sheet businesses of the bank as a result of adverse changes in market price (interest rates, exchange rates, stock prices and commodity prices).

During the Reporting Period, the Bank has further improved construction of market risk management system, actively explored market risk management mode suitable for development of the Bank, and promptly started market risk management system construction project, and carefully developed market risk monitoring and reporting.

Firstly, promote construction of market risk management system. The Bank developed and issued a series of policy system including Market Risk Management Policy of Zhongyuan Bank (中原銀行市場風險管理政策) and Market Risk Measurement Management Measures of Zhongyuan Bank (中原銀行市場風險計量管理辦法) in first half of 2018, which further improved market risk management framework and management process.

Secondly, accelerate progress in market risk management system project. In the first half of 2018, the Bank completed the project approval and tendering of market risk management system project, started to build market risk management data platform and system engine, established standardized management system of project team and determined project scope and system demand to promote system development in order.

Thirdly, continuously strengthen market risk monitoring, measurement and reporting. The Bank measures and monitors the trading account bond valuation, duration, sensitiveness, and lever ratio on a monthly basis to ensure the effective implementation of financial market business authorization and limitation, thus promptly monitoring internal and external market risks, mastering the changes in market risks of the Bank, and reporting such to senior management on a regular basis.

Fourthly, develop market risk pressure test to promptly master market risk bearing capacity of the Bank. As required by the People's Bank of China, the Bank has conducted special pressure tests on bank account interest rate risk, special bond market risk and foreign exchange risk, and evaluated market risk bearing capacity of the Bank under different pressure. Based on the test results, the market risk is controllable under light pressure scenarios. Meanwhile, the Bank further adjusts position and improves term structure, so as to effectively settle the hidden risk dangers under heavy pressure.

10.3 Operational risk

Operational risk refers to risk of loss arising from flawed internal procedures, incompetent personnel or flawed systems, or external events. Our operational risk management objectives are to establish an operational risk management system suitable to the business nature, scale and complexity of the Bank, so as to effectively recognize, evaluate, monitor and control/release operational risks, and make the loss of operational risk controlled within acceptable range.

The Bank has established its operational risk management structure which is composed of the Board of Directors, the Board of Supervisors, the senior management, the compliance department, the internal audit department, various business lines (divisions) and outlets.

The Bank constantly strengthens its operational risk management through various measures, such as checking for various business lines, inspecting and examining employees' behaviors, improving institutional systems, conducting educational activities in relation to compliance. In the meanwhile, the Bank is optimizing the construction of internal control, compliance and operational risk management systems. The Bank has revised and improved the Measures for Management of Operational Risks of Zhongyuan Bank (中原銀行操作風險管理辦法) and the three tool management systems, and has constructed and further improved the management procedures for identification, evaluation, monitoring and warning management of operational risks, so as to ensure the sustainability and effectiveness of our internal control compliance and operational risk management, and to further enhance its elaborate management capability of operational risks.

10.4 Liquidity risk

Liquidity risk refers to risk of failure to obtain adequate funds to repay debts on a timely manner on a timely manner or at reasonable costs to respond to assets growth or pay matured debts, although such commercial bank has solvency.

The Bank has established its liquidity risk management systems which are suitable for business scale, nature and complexity. Specifically, such systems include organization system under the coordinated management of the whole bank, annual liquidity management strategy system, liquidity management system and daily management tool system.

During the Reporting Period, the Bank strengthened liquidity risk management and continuously improved construction of liquidity risk system, so the overall liquidity was relatively good and major liquidity supervision indicators satisfied the supervision requirements. The major management measures include: firstly, monitoring liquidity risk comprehensively, continuously and rigorously by establishing effective monitoring indicator system for liquidity risk to provide real-time and accurate information for liquidity risk management; secondly, constructing complete liquidity risk warning system which satisfies various supervision requirements and various liquidity indicators; thirdly, strengthening the construction of liquidity risk management procedures and mechanisms by continuously improving liquidity risk management systems, so as to ensure the prompt and effective disposal of liquidity risk; fourthly, improving liquidity gap management level, enhancing coordination and control capability of the whole bank and expanding the financing channels actively to realize multichannel liquidity supply; fifthly, maintaining regional liquidity safety actively, strengthening inter-bank liquidity assistance at key timeline, and promoting the operation of liquidity assistance mechanism of urban commercial banks in Henan, and assisting in the liquidity assistance management of urban commercial banks in the whole Henan province.

10.5 Information technology risk

Information technology risk refers to the operational risks caused by natural factors, human factors, technical loopholes and flawed management in application of banking transaction processing, operation management and internal control for modern information technologies such as computer, communication, microelectronics and software engineering.

The Bank has established its tiered information technology risk management organization system on the basis of the three lines of defense; it takes information technology risk management policies as its core and information technology risk management institutional system is formulated by tiers and re-inspected on a regular basis; it proactively implements relevant works, such as information technology risk control self-assessment, information technology key risk indicators monitoring and information technology risk loss (incidents) database collection, and establishes an effective risk management process system which supports risk identification, assessment, control/mitigation, monitoring/reporting.

The Bank has further improved its information technology risk management levels during the Reporting Period through a series of measures, including continuously implementing information technology risk examination and inspection, optimizing organization and management process, improving information technology management structure, conducting risk monitoring and assessment of information technology, perfecting disaster backup system and contingency plans, ensuring its business continuity.

10.6 Reputational risk

Reputational risk refers to the risk of negative comments about the Bank generated by relevant all social parties in respect of company's operations, management and other activities or external events, thus affecting the business development and performance of the Bank.

For the management of reputational risks, the Bank combines the prevention with disposal, and adheres to the principles of "being vigilant in peace time and mass prevention and mass treatment", "unified leadership and graded control", "fast response and co-operative response" and "duty fulfillment and discipline observation and reverse responsibility investigation", so as to improve its capability and efficiency to prevent reputational risks and solve reputational incidents.

During the Reporting Period, the Bank carefully developed the prevention and control of reputational risks, improved reputational risk management system, further optimized reputational risk disposal mechanism, and continuously improved the effectiveness of reputational risk management. The Bank strengthened the positive propaganda to enhance its brand reputation. The Bank established the daily reporting system of information on reputational risks to solve various reputational risk incidents in a proper manner by strengthening daily monitoring and warning on public opinions and deeply investigating the reputational risk factors. The Bank organized reputational risk emergency rehearsal and reputational risk training, which improved the awareness and disposal capability of its employees for reputational risks, and helped to cultivate the culture of managing reputational risks.

11. Corporate Strategies and Future Prospect

The Bank intends to become a leading commercial bank in China, holding the core value of "stability, innovation, motivation and efficiency", and intends to further enhance the risk management and internal control systems, and continue to develop efficient, convenient and innovative financial services that cater to different customers' needs while keep on expanding the scope of the products and services, so that the Bank can further enhance and promote market recognition of the brand name.

(1) In line with the strategy of "rooted in Henan with country-wide radiation (深耕河南，輻射全國)", the Bank intends to further enhance the leading market position in Henan Province while observing opportunities to expand the business scope.

(2) Leveraging historical opportunity due to the implementation of multiple favorable policies and core national strategies, such as "Henan Grain Production Core Region (河南糧食生產核心區)", "Central Plains Economic Zone (中原經濟區)", "Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合試驗區)" and "China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)", the Bank intends to enhance our leading market position in this region.

(3) In line with the strategy of "offering featured products in traditional banking business", the Bank intends to build a well-recognized brand name associated with quality products and services.

(4) The Bank intends to form a brand as a transaction bank capable of offering comprehensive financial services, through developing businesses that could effectively integrate the operations of corporate banking, investment banking and financial markets business.

(5) The Bank plans to transform into a "smart bank (智慧銀行)" where it can rely on advanced technologies, particularly big-data and cloud computing technologies to improve cost-efficiency of our business experience.

In the future, the Bank will continue to adhere to the "Three Major Strategies (三大戰略)" and accelerate the development and layout of "Internetization and Ruralization of Banking Services (上網下鄉)" with "data-based bank (數據銀行)" and "technology bank(科技銀行)" as our development direction to make the Internet thinking and the continuous development and application of advanced financial technologies the new driving forces for our sustainable development in the future.

Changes in Share Capital and Information on Shareholders

Changes in Share Capital

There were changes in the share capital of the Bank during the Reporting Period. As of the end of the Reporting Period, the total issued share capital of the Bank was 20,075,000,000 Shares, including 3,795,000,000 H Shares and 16,280,000,000 Domestic Shares.

Information on Shareholders

Shareholdings of Top 10 Domestic Shareholders of the Bank

No.	Name of shareholders	Nature of Shareholders	Number of shares held as at the end of the Reporting Period	Approximate percentage of the total issued share capital of the Bank as at the end of the Reporting Period
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	1,407,285,479	7.01%
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	State-owned Legal Person Shares	1,156,751,425	5.76%
3	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
4	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
5	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	474,836,916	2.37%
7	Xinxiang City Finance Bureau (新鄉市財政局)	State-owned Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%
Total			6,143,419,209	30.60%

Interests and Short Positions of Substantial Shareholders, Directors, Supervisors and Chief Executive Officers in the Shares and Underlying Shares

Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

So far as is known to the Bank and the Directors, as of 30 June,2018, substantial shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under 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 Shareholder	Class of Shares	Nature of interests	Number of Shares [1]	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) [2]	Approximate percentage of the total issued share capital of the Bank (%) [2]
Henan Investment Group Co., Ltd. (河南投資集團有限公司) [3]	Domestic Shares	Beneficial owner	1,407,285,479 (L)	8.64	7.01
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) [4]	Domestic Shares	Beneficial owner	1,156,751,425 (L)	7.11	5.76
	Domestic Shares	Interest in controlled corporation	54,695,401 (L)	0.34	0.27
Henan Energy and Chemical Group Co., Ltd.(河南能源化工集團有限公司) [5]	Domestic Shares	Interest in controlled corporation	1,299,627,447 (L)	7.98	6.48
China Create Capital Limited	H Shares	Beneficial owner	342,682,000 (L)	9.03	1.71
CMB International Finance Limited[6]	H Shares	Held Security Interest in Shares	214,168,000 (L)	5.64	1.07
China Merchants Bank Co., Ltd. [6]	H Shares	Interest in controlled corporation	214,168,000 (L)	5.64	1.07
Zhong Sheng Capital (Hongkong) Co., Limited	H Shares	Beneficial owner	214,168,000 (L)	5.64	1.07
TIAN KUN INVESTMENT LIMITED [7]	H Shares	Beneficial owner	1,001,000,000 (L)	26.38	4.99
YINGCHUANG INTERNATIONAL INVESTMENT LIMITED[7]	H Shares	Interest in controlled corporation	1,001,000,000 (L)	26.38	4.99
Zhongchuang Investment (Holdings) Limited [7]	H Shares	Interest in controlled corporation	1,001,000,000 (L)	26.38	4.99
Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資 (上海) 有限公司)[7]	H Shares	Interest in controlled corporation	1,001,000,000 (L)	26.38	4.99

Name of Shareholder	Class of Shares	Nature of interests	Number of Shares [1]	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) [2]	Approximate percentage of the total issued share capital of the Bank (%) [2]
China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) [7]	H Shares	Interest in controlled corporation	1,001,000,000 (L)	26.38	4.99
China Minsheng Investment Group (中國民生投資股份有限公司) [7]	H Shares	Interest in controlled corporation	1,001,000,000 (L)	26.38	4.99
Shanghai Huaxin Group (HongKong) Limited (上海華信集團 (香港)有限公司)	H Shares	Beneficial owner	573,964,000 (L)	15.12	2.86
AMTD Group Company Limited [8]	H Shares	Interest in controlled corporation	482,288,000 (L)	12.71	2.40
L.R. Capital Management Company (Cayman) Limited[8]	H Shares	Interest in controlled corporation	482,288,000 (L)	12.71	2.40

Notes:

1. (L) represents the long position, (S) represents short position.

2. As of June 30, 2018, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and3,795,000,000 H Shares.

3. Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly-owned by the Henan Provincial Development and Reform Commission (河南省發展和改革委員會).

4. Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) directly holds 1,156,751,425 Domestic Shares of the Bank (long positions) and indirectly holds 54,695,401 Domestic Shares of the Bank (long positions) through its controlled corporations, including 23,146,265 Domestic Shares of the Bank (long positions) directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), 9,961,851 Domestic Shares of the Bank (long positions) indirectly held by Yongcheng Coal and Electricity Group (Kaifeng) Tower Investment Co., Ltd. (永城煤電集團(開封) 鐵塔投資有限公司) through Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團) 有限公司) and 21,587,285 Domestic Shares of the Bank (long positions) directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司), respectively. Therefore, by virtue of the SFO, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團) 有限公司) and Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司).

5. Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is wholly-owned by the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會). Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) indirectly holds 1,299,627,447 Domestic Shares of the Bank (long positions) through its controlled corporations, including 1,211,446,826 Domestic Shares of the Bank (long positions) directly and indirectly held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), 23,548,264 Domestic Shares of the Bank (long positions) directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), 15,621,486 Domestic Shares of the Bank (long positions) directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and 49,010,871 Domestic Shares of the Bank (long positions) indirectly held by Henan Energy and Chemical Construction Group Co., Ltd. (河南能源化工建設集團有限公司) through its controlled corporation, namely Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司), respectively. Therefore, by virtue of the SFO, Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司).

6. China Merchants Bank Co., Ltd., through its controlled corporations, namely CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited, is indirectly interested in 214,168,000 H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares. Therefore, by virtue of the SFO, China Merchants Bank Co., Ltd., CMB International Capital Holdings Corporation Limited and CMB International Capital Corporation Limited are deemed to be interested in the H Shares of the Bank (long positions) held by CMB International Finance Limited in the capacity of a person having a security interest in shares.

7. China Minsheng Investment Group (中國民生投資股份有限公司), through its controlled corporations, namely China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海) 有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED, is indirectly interested in 1,001,000,000 H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED. Therefore, by virtue of the SFO, each of China Minsheng Investment Group (中國民生投資股份有限公司), China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED is deemed to be interested in the H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED.

8. L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, is indirectly interested in 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.

Changes in Share Capital and Information on Shareholders

Save as disclosed above, none of the substantial Shareholders or other persons had, as of June 30, 2018, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

Shareholders with an Interest in 5% or More of the Total Issued Share Capital of the Bank

Please refer to "Information on Shareholders" for the details of Shareholders with an interest in 5% or more of the share capital of the Bank.

Information on Substantial Shareholders in Accordance with Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》)

Pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, in addition to the aforesaid three shareholders, namely Henan Investment Group Co., Ltd. (河南投資集團有限公司), Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) and TIAN KUN INVESTMENT LIMITED, the following four shareholders are also the substantial shareholders of the Bank.

1. Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which holds 753,000,000 Domestic Shares of the Bank. The company was incorporated in Jinshui District, Zhengzhou City, Henan Province on October 24, 2001, with a registered capital of RMB850 million. The business scope of the company includes investment and investment service management, information technology consulting service, corporate planning management, project planning management, electronic network engineering service (excluding projects subject to state approval), etc. Mr. LI Xipeng, a non-executive director of the Bank, is the chairman and legal representative of the company, which is actually owned by Mr. LI Xipeng and his spouse, Ms. Shu Pujuan.

2. Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司), which holds 568,000,000 Domestic Shares of the Bank. The company was incorporated in Zhengdong New District, Zhengzhou City, Henan Province on July 21, 2003, with a registered capital of RMB365 million. The business scope of the company includes investment in highways, bridges, transportation, energy, electricity, chemical, high-tech, pharmaceutical and education industries, sales of building materials, house tenancy, car rental, etc. Mr. ZHAO Ming, a shareholder Supervisor of the Bank, is the legal representative and executive director of the company.

3. Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司), which holds 474,836,916 Domestic Shares of the Bank. The company was incorporated in Erqi District, Zhengzhou City, Henan Province on January 20, 2010, with a registered capital of RMB100 million. The business scope of the company includes real estate development and sales, house tenancy, etc. Ms. LI Weizhen, a shareholder Supervisor of the Bank, is the general accountant of the company.

4. Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which holds 200,000,000 Domestic Shares of the Bank. The company was incorporated in Luolong District, Luoyang City, Henan Province on November 4, 2005, with a registered capital of RMB300 million. The business scope of the company includes the construction and operation of long-distance natural gas pipelines, and the research, development, construction and operation of pipeline liquefied gas and other petroleum and natural gas utilization projects. (For items requiring approval for the above scope, no operation shall be permitted before approval is obtained). Mr. LI Wanbin, a Supervisor of the Bank, is the actual controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is actually controlled by Mr. LI Wanbin, holds 207,657,871 Domestic Shares of the Bank.

Equity Pledge and Freeze

As of the end of the Reporting Period, to the knowledge of the Bank, 7,122,221,889 Domestic Shares of the Bank were pledged, accounting for 35.48% of the total issued ordinary shares, of which, the number of Domestic Shared pledged by substantial Shareholders accounted for 11.76% of the total issued ordinary Shares. In addition, 507,493,455 Domestic Shares, which are held by Shareholders other than substantial Shareholders, were involved in judicial freeze.

Purchase, Sale or Redemption of Listed Securities

The Bank and its subsidiaries did not purchase, sell or redeem any listed securities of the Bank for the six months ended June 30, 2018.

Directors, Supervisors, Senior Management and Employees

Current Directors, Supervisors and Senior Management

The constitution of the Board of Directors, the Board of Supervisors and the senior management of the Bank as of the date of this interim report were as follows:

The Board of Directors of the Bank consisted of a total of 11 members, including four executive Directors, namely Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; three non-executive Directors, namely Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun; and four independent non-executive Directors, namely Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.

There are 6 special committees and one Executive Committee under the Board. The name and composition of each committee are as follows:

Strategic and Development Committee:	Mr. DOU Rongxing (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. LI Qiaocheng, Mr. LI Xipeng, Mr. MI Hongjun and Mr. JIA Tingyu
Audit Committee:	Mr. CHAN Ngai Sang Kenny (chairman), Ms. PANG Hong, Mr. LI Hongchang and Mr. JIA Tingyu
Related Party Transactions Control Committee:	Mr. LI Hongchang (chairman), Mr. WANG Jiong, Mr. WEI Jie, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny
Risk Management Committee:	Mr. JIA Tingyu (chairman), Mr. WANG Jiong, Mr. LI Yulin, Mr. WEI Jie, Ms. PANG Hong and Mr. LI Hongchang
Nomination and Remuneration Committee:	Ms. PANG Hong (chairperson), Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Hongchang and Mr. JIA Tingyu
Consumer Rights Protection Committee:	Mr. WANG Jiong (chairman), Mr. LI Yulin, Mr. LI Hongchang and Mr. CHAN Ngai Sang Kenny
Executive Committee:	Mr. DOU Rongxing (chairman), Mr. WANG Jiong, Mr. LI Yulin, Mr. WEI Jie, Mr. LIU Kai*, Mr. ZHAO Weihua* and Mr. ZHOU Litao*

* Mr. LIU Kai, Mr. ZHAO Weihua and Mr. ZHOU Litao are senior management members, but not members of the Board of Directors.

The Board of Supervisors of the Bank consisted of 9 Supervisors, including three Shareholder representative Supervisors, namely Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin; three external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin; and three employee representative Supervisors, namely Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian.

The senior management of the Bank consisted of 9 members, namely Mr. WANG Jiong, Mr. LI Yulin, Mr. LIU Kai, Mr. ZHAO Weihua, Mr. ZHOU Litao, Mr. LIU Qingfen, Mr. ZHANG Ke, Mr. ZHANG Yixian and Ms. ZHANG Yi.

Changes in Directors, Supervisors and Senior Management during the Reporting Period

Changes in Directors

On January 20, 2018, Mr. HAO Jingtao, due to his work arrangement, resigned as the executive director of the Bank.

On March 16, 2018, the 2018 first extraordinary general meeting of the Bank reelected Mr. DOU Rongxing and Mr. WANG Jiong as executive Directors of the second session of the Board, Mr. LI Qiaocheng and Mr. LI Xipeng as non-executive Directors of the second session of the Board, and Mr. LI Hongchang, Ms. PANG Hong, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive Directors of the second session of the Board. Meanwhile, the meeting elected and appointed Mr. WEI Jie and Mr. LI Yulin as executive Directors of the second session of the Board, and appointed Mr. MI Hongjun as non-executive Directors of the second session of the Board. On May 9, 2018, CBRC Henan Office approved the qualification of Mr. WEI Jie, Mr. LI Yulin and Mr. MI Hongjun as Directors. On March 16, 2018, Ms. HU Xiangyun ceased to act as the executive director and the vice chairperson of the Board due to her retirement upon the expiry of her term in the first session of the Board of Supervisors of the Bank.

On March 16, 2018, the Bank's first meeting of the second session of the Board elected Mr. DOU Rongxing as the chairman, and Mr. WEI Jie as the vice chairman of the second session of the Board. On July 26, 2018, CBRC Henan Office approved the qualification of Mr. WEI Jie as vice chairman.

Directors, Supervisors, Senior Management and Employees

Changes in Supervisors

On March 6, 2018, Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian were elected as employee representative Supervisors of the second session of the Board of Supervisors of the Bank at the 5th meeting of the first session of the employee representatives of the Bank.

The 2018 first extraordinary general meeting of the Bank held on March 6, 2018 re-elected Mr. ZHAO Ming, Ms. LI Weizhen and Mr. LI Wanbin as shareholder representative Supervisors, Mr. LI Xiaojian, Mr. HAN Wanghong and Mr. SUN Xuemin as external Supervisors. Since March 6, 2018, Mr. SI Qun, due to his work arrangement, no longer acted as the employee representative Supervisor, and Mr. MA Guoliang, due to his retirement, no longer acted as the employee representative Supervisor and Chairman of the Board of Supervisors of the Bank upon the expiry of their term in the first session of the Board of Supervisors of the Bank.

Changes in Senior Management

On January 20, 2018, Mr. HAO Jingtao, due to his work arrangement, resigned as the executive vice president of the Bank.

On March 6, 2018, the Bank's first meeting of the second session of the Board appointed Mr. WANG Jiong as the president, Mr. LI Yulin as executive vice president, Mr. LIU Kai as vice president, Mr. ZHAO Weihua as vice president and chief risk officer, Mr. ZHOU Litao as vice president, Mr. LIU Qingfen as assistant to the president and Mr. ZHANG Ke as the secretary to the Board of the Bank. On May 14, 2018, CBRC Henan Office approved the qualification of Mr. ZHAO Weihua as vice president and chief risk officer and Mr. ZHOU Litao as vice president of the Bank. On June 11, 2018, CBRC Henan Office approved the qualification of Mr. LIU Qingfen as assistant to the president of the Bank.

Since March 27, 2018, being the date of publication of 2017 annual report by the Bank and up to the date of this report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

Securities Transactions by Directors, Supervisors and Relevant Employees

As of June 30, 2018, the Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Company, which terms are no less exacting than those of the Model Code, for the relevant employees (as defined in the Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with during the first half of 2018. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Company, the Bank is not aware of any incompliance with the guidelines.

Interests and Short Positions of Directors, Supervisors and Senior Management in the Shares, Underlying Shares and Debentures

As of June 30,2018, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:

Interests in Shares of the Bank (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) [1]	Approximate percentage of the total issued share capital of the Bank (%) [1]
Mr. LI Xipeng [2]	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. LI Wanbin [3]	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03
Mr. ZHAO Ming [4]	Domestic Shares	Interest in controlled corporation	568,000,000	3.49	2.83

Notes:

1. As of June 30, 2018, the number of total issued Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.

2. Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).

3. Mr. LI Wanbin and his spouse directly and indirectly hold 100% equity interest in Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).

4. Mr. ZHAO Ming holds 75.34% equity interest in Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司). By virtue of the SFO, Mr. ZHAO Ming is deemed to be interested in the 568,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司).

Directors, Supervisors, Senior Management and Employees

Employees' Remuneration Policies and Training Programs

The Bank has 13,336 employees in total. The Group's remuneration policies for its employees are set up by the nomination and remuneration committee under the Board of Directors on the basis of their merit, qualifications and competence. As of June 30, 2018, there were no material changes in the remuneration policies and training programs of the Bank. Details of the remuneration of the Bank's employees are set out in the note "operating expenses" to the financial statements.

The Bank upholds a people-oriented management philosophy and takes "implementing innovation-driven strategies and enhancing the quality and efficiency of training on management" with a focus on annual training plan formulation, and provides training programs to its employees at various levels, with high frequency, through multiple channels and in multiple forms on the basis of its business development strategies and training plans, with an aim to enhances the overall quality, professional capabilities and management skills of its staff in a continuous and comprehensive manner, to build up a professional team specializing in business operations and management, and to drive the rapid and healthy development of its businesses. The Bank manages its training programs based on the mechanism of "standardized principles and planning, and hierarchical management and implementation", and establishes a three-tier training system comprising "head office, branch, sub-branch (sector)". During the reporting period, the Bank organized 112 tier 1 training in various categories in total, and had completed 42.58% of its annual training plan. The aggregated number of staff trained was 24,128 with 2 trainings per person. 18 branches of the Bank reported that they carried out 1,846 tier 2 training programs at the beginning of the year and completed 946 training programs with the training duration of 892 days and aggregated number of staff trained of 58,693 and 4.9 trainings per person. Our training has basically reached full staff coverage and provides strong human resources protection for the business development of the Bank.

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 the Branch	Business Address	Remarks
Zhengzhou, Henan	Headquarter	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
Zhengzhou, Henan	Zhengzhou	No. 219 Jinshui Road, Jinshui District, Zhengzhou City, Henan Province	In charge of one business department and 33 sub-branch institutions
Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department and 33 sub-branch institutions
Xinyang, Henan	Xinyang	1/F, Approval Centre, Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department and 28 sub-branch institutions
Anyang, Henan	Anyang	No. 11, Jiefang Avenue, Anyang City, Henan Province	In charge of one business department and 26 sub-branch institutions
Hebi, Henan	Hebi	1/F, Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department and 17 sub-branch institutions
Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department and 19 sub-branch institutions
Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department and 43 sub-branch institutions
Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department and 11 sub-branch institutions
Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department and 22 sub-branch institutions
Sanmenxia, Henan	Sanmenxia	No. 64, Middle Xiaoshan Road, Sanmenxia City, Henan Province	In charge of one business department and 27 sub-branch institutions
Shangqiu, Henan	Shangqiu	Northeast Corner, Shangzi Plaza, Shangqiu City, Henan Province	In charge of one business department and 48 sub-branch institutions

Region	Name of the Branch	Business Address	Remarks
Xinxiang, Henan	Xinxiang	No.559 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department and 38 sub-branch institutions
Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province(On the west to the Bureau of Finance)	In charge of one business department and 27 sub-branch institutions
Zhoukou, Henan	Zhoukou	MOCO New world Business Office Building, intersection of Qingfeng Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department and 26 sub-branch institutions
Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department and 39 sub-branch institutions
Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department and 6 sub-branch institutions
Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department and 2 sub-branch institutions
Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department and one sub-branch institutions

Compliance with the Corporate Governance Code

As of June 30, 2018, the Bank has been in compliance with all the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Listing Rules, and most of the recommended best practices have been adopted by the Bank.

Information Regarding the Convening of the Shareholders' General Meetings

Four Shareholders' general meetings were held during the Reporting Period, including two shareholders' class meetings.

On March 16, 2018, the Bank held the first extraordinary general meeting of 2018, the first domestic shareholders class meeting of 2018, and the first H shareholders class meeting of 2018, at which eight proposals were considered and approved, including "Proposal on the Election of Directors for the Second Session of Board of Directors of Zhongyuan Bank Co., Ltd.", "Proposal on the Election of Non-employee Supervisors for the Second Session of Board of Supervisors of Zhongyuan Bank Co., Ltd." and "Proposal on Non-Public Issuance of Offshore Preference Shares by Zhongyuan Bank Co., Ltd.".

On May 16, 2018, the Bank held the 2017 annual general meeting, at which 7 proposals were considered and approved, including "Proposal on the Working Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2017", "Proposal on the Working Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2017", "Proposal on the Final Financial Accounts of Zhongyuan Bank Co., Ltd. for 2017" and "Proposal on the Financial Budgets of Zhongyuan Bank Co., Ltd. for 2018".

The convening, notice, holding and voting procedures of the aforesaid Shareholders' general meetings were in accordance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank.

Information Regarding the Convening of Meetings of the Board of Directors and its Special Committees

During the Reporting Period, the first session of Board of Directors convened one meeting and the second session of Board of Directors convened three meetings, at which 45 proposals were considered and approved. The special committees under the Board of Directors held nine meetings, including one meeting of the strategy and development committee, two meetings of the consumer rights protection committee, one meeting of the audit committee, one meeting of the risk management committee, two meetings of the nomination and remuneration committee and two meeting of the related party transactions control committee, at which 30 proposals in total were considered and approved.

Information Regarding the Convening of Meetings of the Board of Supervisors and its Special Committees

During the Reporting Period, the first session of Board of Supervisors held one meeting, and the second session of Board of Supervisors held three meetings, at which 19 proposals were considered and approved. The special committees under the Board of Supervisors held three meetings, including two meetings of the nomination committee and one meeting of the supervision committee, at which ten proposals in total were considered and approved.

Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

The Bank continues to implement and optimize the defense mechanism comprising of three lines for internal control. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank had, followed on the principle of "prudential operation with risk-based supervision", continued to improve internal control compliance and enhance the effectiveness of management tools for operational risks, optimize and upgrade the information integration system for internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to optimize its regulatory framework by establishing a three-tier system comprising of basic norms, administrative measures and operational rules. For the purpose of operational management and to meet the need of business development, the Bank also introduced an internal control system covering all of its businesses such as credit business, counter business, financial markets business, financial accounting, information systems and intermediate business and management lines, and established a mechanism to assess internal control system. The Bank continued to modify and improve its internal control system in accordance with the changing requirements of the external laws and regulations and the regulatory requirements, to ensure compliance with external laws and regulations and regulatory requirements, and to provide a basis and support for the Bank's operational management, business operations and effective risk prevention and control.

The Bank continued to promote the culture building of internal control compliance and actively organized compliance training courses and campaigns for all of its staff, with a view to refine its long-term policy on compliance education, and enhance the effectiveness of its internal control system through continuous organization of case study discussions, competitions on compliance knowledge, and compliance training courses and campaigns.

Important Events

1. Use of Proceeds

The net proceed received from the Bank's global offering was HK$8,200 million, including the net proceeds of approximately HK$1,100 million from the Shares issued pursuant to the in full exercise of the over-allotment option. The Bank applied all of those proceeds raised in the global offering towards the uses as disclosed in the Prospectus and for replenishing its capital.

2. Profits and Dividends

During the Reporting Period, the Board has not recommended the payment of any interim dividend for the six months ended June 30, 2018. The final dividend for the year ended December 31, 2017 has been approved by the 2017 general meeting of shareholders of the Bank. A dividend of RMB0.71 (tax included) per ten shares before tax with a total cash dividend of RMB1,425 million will be paid. The above cash dividend has been paid since June 29, 2018.

3. Material Connected Transactions

During the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

During the Reporting Period, there had not been any material connected transactions entered into between the Bank, its substantial shareholders, controlling shareholders, actual controllers, connected parties, parties acting in concert and ultimate beneficiary, and all the business transactions conducted with them were in compliance with the provisions of the Administrative Measures for the Connected Transactions between Commercial Banks and their Insiders and Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》), the Listing Rules and the Accounting Standards for Business Enterprises.

4. Material Litigations and Arbitrations

As of June 30, 2018, material pending legal proceedings in which the Bank was involved as a defendant amounted to approximately RMB784.3 million.

Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of June 30, 2018, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved an amount over RMB10.0 million with an aggregate loan principal of approximately RMB123.9 million. As of June 30, 2018, 2 effective judgements have rejected the plaintiff's claim, one case in which the plaintiff has dropped the suit, 23 cases had received first judgements or rulings, while 23 cases were still pending for first judgements.

Litigation against the Puyang branch in relation to alleged lending and borrowing

In July 2016, the plaintiff of the case filed a lawsuit against the Puyang branch of the Bank for alleged lending and borrowing. On June 21, 2017, the Puyang branch received the judgement of second instance from Puyang Intermediate People's Court, in which the court determining that, the Puyang branch shall be liable for the compensations up to half of the principal and accrued interest that the Borrower could not repay. As of June 30, 2018, the Puyang branch of the Bank has applied for retrial before the Henan High People's Court.

Property rights dispute of Zhoukou Branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou Branch for property rights dispute. Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. In September 2016, the Zhoukou branch appealed to the Henan High People's Court. In December 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. As of June 30, 2018, Zhoukou Intermediate People's Court was in the process of retrial.

Litigation against Lushi Zhongyuan County Bank Co., Ltd. in relation to alleged lending and borrowing

Lushi Zhongyuan County Bank was sued in April 2015 and March 2017 respectively, for two cases regarding alleged lending and borrowing. In April 2016, Luoyang Intermediate People's Court rendered judgment of first instance on one of the above-mentioned cases against the Lushi Zhongyuan County Bank, which later appealed to Henan High People's Court. In May 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. As of June 30, 2018, the retrial of Luoyang Intermediate People's Court has been held. For the other case, the first trail of Luoyang Intermediate People's Court has been held and was still pending for judgements.

5. Penalties for the Bank and its Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank, its Directors, Supervisors or Senior Management had been subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.

6. Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

During the Reporting Period, neither the Bank nor Shareholders with 5% or more of the total issued shares of the Bank, has made any commitments.

7. Material Contracts and their Performance

During the Reporting Period, the Bank was not involved in any material contracts to be performed.

8. Acquisitions and Disposals of Assets and Business Mergers

During the Reporting Period, the Bank was not engaged in any material acquisition or disposal of assets or business mergers.

9. Implementation of Share Incentive Scheme during the Reporting Period

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

10. Appointment and Dismissal of Auditors

After consideration and approval in the 2017 annual general meeting convened on May 16, 2018, the Bank re-appointed KPMG Huazhen LLP and KPMG as our domestic and international auditors in 2018, respectively, with the term of office shall expire on the end of audit in 2018.

Important Events

Review of the Interim Report

The interim financial statements disclosed in this interim report have not been audited. KPMG has reviewed the interim financial statements of the Bank for the six months ended June 30, 2018, which were prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board, pursuant to the Hong Kong Standards on Review Engagements.

On August 23, 2018, the audit committee of the Bank has reviewed and confirmed the interim results announcement of the Bank for the six months ended June 30, 2018, the 2018 interim report and the unaudited interim financial statements for the six months ended June 30, 2018 prepared in accordance with the requirements of the International Accounting Standards.

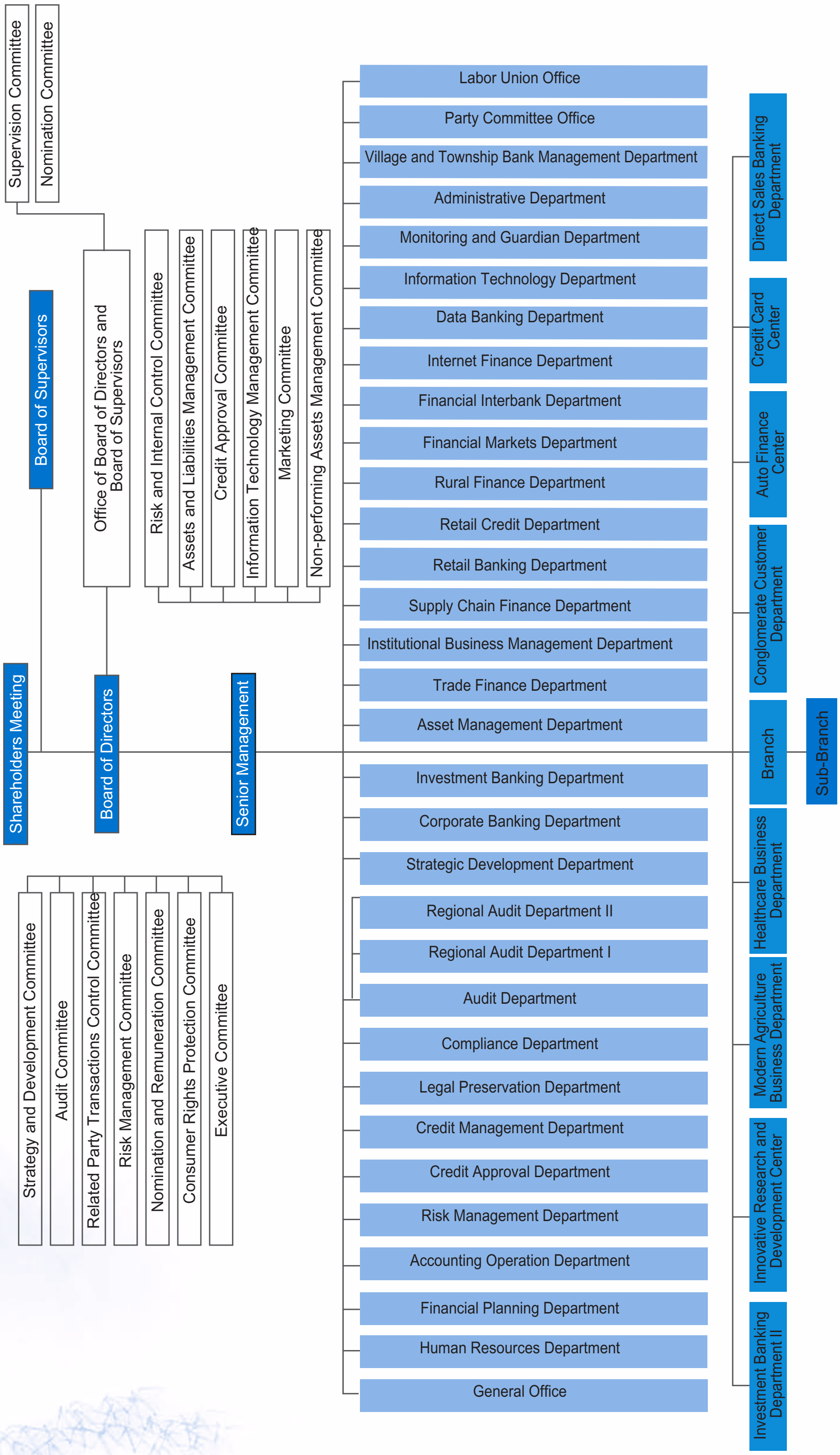
Interim Results

The interim results announcement of the Group for the six months ended June 30, 2018 has been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Bank's website (www.zybank.com.cn) on August 24, 2018.

Events After the End of the Reporting Period

As of the date of this interim report, there are no significant events after the Reporting Period which are required to be disclosed.

Organizational Structure



Review Report to the Board of Directors

Review report to the board of directors of Zhongyuan Bank Co., Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on page 94 to 206 which comprises the consolidated statement of financial position of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") as at June 30, 2018, the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and cash flow statement for the six month period 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 the 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 Institutes of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 consolidated interim financial report as at June 30, 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG
Certificated Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

August 24, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30, 2018	2017
Interest income		**11,935,358**	9,521,325
Interest expense		**(5,528,470)**	(3,907,683)
Net interest income	4	**6,406,888**	5,613,642
Fee and commission income		**699,965**	307,027
Fee and commission expense		**(56,860)**	(30,853)
Net fee and commission income	5	**643,105**	276,174
Net trading losses	6	**(37,255)**	(73,604)
Net gains/(losses) arising from investment securities	7	**517,125**	(1,758)
Other operating income	8	**52,023**	61,427
Operating income		**7,581,886**	5,875,881
Operating expenses	9	**(2,875,657)**	(2,359,220)
Impairment losses on assets	10	**(2,288,568)**	(1,278,546)
Profit before tax		**2,417,661**	2,238,115
Income tax expense	11	**(529,320)**	(490,468)
Profit for the period		**1,888,341**	1,747,647

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
	Note	**2018**	2017
Other comprehensive income:			
Other comprehensive income net of tax attributable to equity shareholders of the Bank			
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets: net movement in the fair value reserve		**–**	(160,192)
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	32(a)	**206,496**	–
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	32(a)	**14,901**	–
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	32(a)	**(424)**	243
Other comprehensive income net of tax attributable to non-controlling interests		**427**	–
Other comprehensive income, net of tax		**221,400**	(159,949)
Total comprehensive income		**2,109,741**	1,587,698
Net profit attributable to:			
Equity shareholders of the Bank		**1,851,543**	1,718,552
Non-controlling interests		**36,798**	29,095
		1,888,341	1,747,647
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**2,072,516**	1,558,603
Non-controlling interests		**37,225**	29,095
		2,109,741	1,587,698
Basic and diluted earnings per share (in RMB)	12	**0.09**	0.10

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Statement of Financial Position

at June 30, 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2018	December 31, 2017
Assets			
Cash and deposits with central bank	13	**71,743,220**	64,369,403
Deposits with banks and other financial institutions	14	**6,538,378**	8,923,751
Placements with banks and other financial institutions	15	**2,439,127**	1,363,355
Derivative financial assets	16	**17,485**	–
Financial assets held under resale agreements	17	**10,151,116**	12,988,617
Loans and advances to customers	18	**211,565,463**	191,708,835
Financial investments:	19	**224,193,773**	226,924,201
Financial investments at fair value through profit or loss		**38,470,307**	9,865,812
Financial investments at fair value through other comprehensive income		**33,364,979**	–
Financial investments at amortised cost		**152,358,487**	–
Available-for-sale financial assets		**–**	94,558,846
Held-to-maturity investments		**–**	23,735,307
Debt securities classified as receivables		**–**	98,764,236
Property and equipment	21	**4,415,454**	4,606,622
Deferred tax assets	22	**2,505,881**	2,045,918
Goodwill	23	**468,397**	468,397
Other assets	24	**10,998,005**	8,590,727
Total assets		**545,036,299**	521,989,826
Liabilities and equity			
Liabilities			
Borrowing from the central bank		**4,033,673**	1,322,887
Deposits from banks and other financial institutions	25	**44,564,860**	39,650,832
Placements from banks and other financial institutions	26	**11,719,546**	5,717,105
Derivative financial liabilities	16	**110,373**	–
Financial assets sold under repurchase agreements	27	**27,426,950**	40,809,848
Deposits from customers	28	**338,859,448**	306,708,284
Income tax payable		**371,176**	984,900
Debt securities issued	29	**65,411,479**	74,128,630
Other liabilities	30	**7,424,660**	6,576,729
Total liabilities		**499,922,165**	475,899,215

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Statement of Financial Position

at June 30, 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2018	December 31, 2017
Equity			
Share capital	31	**20,075,000**	20,075,000
Capital reserve	32	**14,585,284**	13,535,519
Surplus reserve	32	**1,441,525**	1,258,065
General reserve	32	**6,641,622**	6,386,313
Retained earnings		**1,522,166**	4,014,023
Total equity attributable to equity shareholders of the Bank		**44,265,597**	45,268,920
Non-controlling interests		**848,537**	821,691
Total equity		**45,114,134**	46,090,611
Total liabilities and equity		**545,036,299**	521,989,826

Approved and authorised for issue by the board of directors on August 24, 2018.

Dou Rongxing
Chairman of the Board of Directors
Executive Director

Wang Jiong
President
Executive Director

Zhang Yi
General Manager of the Planning and Finance Department

(Company chop)

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank							
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2017		16,625,000	10,274,466	877,063	5,134,776	1,807,859	34,719,164	779,475	35,498,639
Changes in equity for the period:									
Net profit for the period		–	–	–	–	1,718,552	1,718,552	29,095	1,747,647
Other comprehensive income	32	–	(159,949)	–	–	–	(159,949)	–	(159,949)
Total comprehensive income		–	(159,949)	–	–	1,718,552	1,558,603	29,095	1,587,698
Appropriation to shareholders		–	–	–	–	–	–	(1,400)	(1,400)
Balance at June 30, 2017		16,625,000	10,114,517	877,063	5,134,776	3,526,411	36,277,767	807,170	37,084,937
Balance at July 1, 2017		16,625,000	10,114,517	877,063	5,134,776	3,526,411	36,277,767	807,170	37,084,937
Changes in equity for the period:									
Net profit for the period		–	–	–	–	2,120,151	2,120,151	37,880	2,158,031
Other comprehensive income	32	–	(205,616)	–	–	–	(205,616)	–	(205,616)
Total comprehensive income		–	(205,616)	–	–	2,120,151	1,914,535	37,880	1,952,415
Issue of H-shares		3,450,000	3,626,202	–	–	–	7,076,202	–	7,076,202
Purchase of non-controlling interests		–	416	–	–	–	416	(416)	–
Appropriation to surplus reserve	33	–	–	381,002	–	(381,002)	–	–	–
Appropriation to general reserve	33	–	–	–	1,251,537	(1,251,537)	–	–	–
Appropriation to shareholders		–	–	–	–	–	–	(22,943)	(22,943)
Balance at December 31, 2017		20,075,000	13,535,519	1,258,065	6,386,313	4,014,023	45,268,920	821,691	46,090,611

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank							
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at December 31, 2017		**20,075,000**	**13,535,519**	**1,258,065**	**6,386,313**	**4,014,023**	**45,268,920**	**821,691**	**46,090,611**
Impact on initial application of IFRS 9	3	–	836,027	–	–	(2,479,306)	(1,643,279)	–	(1,643,279)
Balance at January 1, 2018		**20,075,000**	**14,371,546**	**1,258,065**	**6,386,313**	**1,534,717**	**43,625,641**	**821,691**	**44,447,332**
Changes in equity for the period:									
Net profit for the period		–	–	–	–	1,851,543	1,851,543	36,798	1,888,341
Other comprehensive income	32	–	220,973	–	–	–	220,973	427	221,400
Total comprehensive income		–	220,973	–	–	1,851,543	2,072,516	37,225	2,109,741
Capital contributed to subsidiary		–	(7,235)	–	–	–	(7,235)	7,235	–
Appropriation to surplus reserve	33	–	–	183,460	–	(183,460)	–	–	–
Appropriation to general reserve	33	–	–	–	255,309	(255,309)	–	–	–
Appropriation to shareholders	33	–	–	–	–	(1,425,325)	(1,425,325)	(17,614)	(1,442,939)
Balance at June 30, 2018		**20,075,000**	**14,585,284**	**1,441,525**	**6,641,622**	**1,522,166**	**44,265,597**	**848,537**	**45,114,134**

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities		
Profit before tax	**2,417,661**	2,238,115
Adjustments for:		
Impairment losses on assets	**2,288,568**	1,278,546
Depreciation and amortisation	**388,141**	348,713
Depreciation of investment properties	**3,827**	4,595
Unwinding of discount	**(80,440)**	(33,970)
Unrealised foreign exchange (gains)/losses	**(73,878)**	878
Net gains on disposal of property and equipment	**(2,424)**	(8,913)
Net losses of financial assets held for trading	**18,245**	72,726
Net losses arising from fair value of derivatives	**92,888**	–
Net (gains)/losses arising from investment securities	**(517,125)**	1,758
Interest expense on debt securities issued	**1,625,493**	931,211
	6,160,956	4,833,659
Changes in operating assets		
Net decrease/(increase) in deposits with central bank	**761,198**	(3,333,197)
Net increase in deposits and placements with banks and other financial institutions	**(158,527)**	(1,340,158)
Net decrease/(increase) in financial investments at fair value through profit or loss	**1,962,331**	(13,856,499)
Net increase in loans and advances to customers	**(21,847,012)**	(19,540,150)
Net increase in other operating assets	**(2,247,216)**	(1,468,184)
	(21,529,226)	(39,538,188)

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
Changes in operating liabilities		
Net increase/(decrease) in borrowing from central bank	**2,710,786**	(2,030,636)
Net increase in deposits from banks and other financial institutions	**4,914,028**	2,213,239
Net increase/(decrease) in placements from banks and other financial institutions	**6,002,441**	(9,604,625)
Net decrease in financial assets sold under repurchase agreements	**(13,382,898)**	(198,869)
Net increase in deposits from customers	**32,151,164**	34,201,246
Income tax paid	**(1,603,007)**	(816,332)
Net increase/(decrease) in other operating liabilities	**117,049**	(1,315,813)
	30,909,563	22,448,210
Net cash flows generated from/(used in) operating activities	**15,541,293**	(12,256,319)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	**210,695,411**	158,020,868
Proceeds from disposal of property and equipment and other assets	**10,018**	31,800
Payments on acquisition of investments	**(211,156,137)**	(167,194,265)
Payments on acquisition of property and equipment and other assets	**(220,252)**	(274,321)
Net cash flows used in investing activities	**(670,960)**	(9,415,918)

The notes on pages 103 to 206 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
	Note	**2018**	2017
Cash flows from financing activities			
Proceeds received from debt securities issued		**45,737,974**	51,378,589
Repayment of debt securities issued		**(55,507,955)**	(51,545,620)
Interest paid on debts securities issued		**(552,044)**	(624,380)
Dividends paid		**(733,103)**	(23,059)
Net cash flows used in financing activities		**(11,055,128)**	(814,470)
Effect of foreign exchange rate changes on cash and cash equivalents		**14,181**	(891)
Net increase/(decrease) in cash and cash equivalents	34(a)	**3,829,386**	(22,487,598)
Cash and cash equivalents as at January 1		**43,080,066**	43,741,320
Cash and cash equivalents as at June 30	34(b)	**46,909,452**	21,253,722
Interest received		**12,139,275**	9,396,159
Interest paid		**(3,862,660)**	(2,732,749)

The notes on pages 103 to 206 form part of this interim financial report.

1 Background Information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities (the "Reorganization).

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license No. 410000100034311 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council. In July 2017, the Bank's H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 1216).

As at June 30, 2018, the Bank has 18 branches across Henan Province, 9 subsidiaries which are county banks and 1 subsidiary which is consumer finance company. The principle activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBIRC.

2 Basis of preparation

This 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.

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.

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

2 Basis of preparation (Continued)

This interim financial report contains condensed 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 interim financial statements and notes thereon do not include all of the information required for 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 Institution of Certified Public Accountants.

The financial information relating to the financial year ended December 31, 2017 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual financial statements for that financial year but is derived from those financial statements.

3 Changes in accounting polices

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. The principal effects of new and revised International Financial Reporting Standards ("IFRSs", including International Accounting Standards ("IASs")) are as follows:

IFRS 15 "Revenue from contracts with customers"

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The adoption will not have any material impact on the financial position and the financial result of the Group.

3 Changes in accounting polices (Continued)

IFRIC 22, "Foreign currency transactions and advance consideration"

The Interpretation provides guidance on how to determine "the date of the transaction" when applying IAS 21, the effects of changes in foreign exchange rates to situations where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability.

The Interpretation clarifies that "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The interpretation is expected to have no material impact on financial position and financial performance of the Group.

IFRS 9 "Financial instruments"

IFRS 9 Financial Instruments ("IFRS 9") introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis and includes an exception from the requirement to restate comparative information. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 2018.

Classification and measurement

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

- 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. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

3 Changes in accounting polices (Continued)

Classification and measurement (Continued)

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

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

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss 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 either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Disclosure

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from January 1, 2018. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of net assets at January 1, 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting polices (Continued)

Transition (Continued)

The following financial assets has been reclassified and remeasured on transition to IFRS 9 on January 1, 2018.

	IAS 39 December 31, 2017	Reclassification	Remeasurement	IFRS 9 January 1, 2018
Assets				
Cash and deposits with central bank	64,369,403	–	–	**64,369,403**
Deposits with banks and other financial institutions	8,923,751	–	(894)	**8,922,857**
Placements with banks and other financial institutions	1,363,355	–	(419)	**1,362,936**
Financial assets held under resale agreements	12,988,617	–	(1,302)	**12,987,315**
Loans and advances to customers	191,708,835	–	(470,574)	**191,238,261**
Available-for-sale financial assets	94,558,846	(94,558,846)	–	**–**
Held-to-maturity investments	23,735,307	(23,735,307)	–	**–**
Debt securities classified as receivables	98,764,236	(98,764,236)	–	**–**
Financial investments at fair value through profit or loss	9,865,812	44,039,215	(55,607)	**53,849,420**
Financial investments at fair value through other comprehensive income	–	36,032,339	16,448	**36,048,787**
Financial investments at amortised cost	–	136,986,835	(1,675,428)	**135,311,407**
Property and equipment	4,606,622	–	–	**4,606,622**
Deferred tax assets	2,045,918	–	597,458	**2,643,376**
Goodwill	468,397	–	–	**468,397**
Other assets	8,590,727	–	–	**8,590,727**
Total assets	521,989,826	–	(1,590,318)	**520,399,508**

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting polices (Continued)

Transition (Continued)

	IAS 39 December 31, 2017	Reclassification	Remeasurement	**IFRS 9 January 1, 2018**
Liabilities				
Borrowing from the central bank	1,322,887	–	–	**1,322,887**
Deposits from banks and other financial institutions	39,650,832	–	–	**39,650,832**
Placements from banks and other financial institutions	5,717,105	–	–	**5,717,105**
Financial assets sold under repurchase agreements	40,809,848	–	–	**40,809,848**
Deposits from customers	306,708,284	–	–	**306,708,284**
Income tax payable	984,900	–	–	**984,900**
Debt securities issued	74,128,630	–	–	**74,128,630**
Other liabilities	6,576,729	–	52,961	**6,629,690**
Total liabilities	475,899,215	–	52,961	**475,952,176**
Equity				
Share capital	20,075,000	–	–	**20,075,000**
Capital reserve	13,535,519	–	836,027	**14,371,546**
Surplus reserve	1,258,065	–	–	**1,258,065**
General reserve	6,386,313	–	–	**6,386,313**
Retained earnings	4,014,023	–	(2,479,306)	**1,534,717**
Total equity attributable to equity shareholders of the Bank	45,268,920	–	(1,643,279)	**43,625,641**
Non-controlling interests	821,691	–	–	**821,691**
Total equity	46,090,611	–	(1,643,279)	**44,447,332**

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting polices (Continued)

Transition (Continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's impairment allowance balance as at January 1, 2018.

	IAS 39 December 31, 2017	Remeasurement	**IFRS 9 January 1, 2018**
Loans and advances to customers	7,194,114	621,089	**7,815,203**
Available-for-sale financial assets	1,018,444	(1,018,444)	**–**
Debt securities classified as receivables	704,488	(704,488)	**–**
Financial investments at fair value through other comprehensive income	–	21,472	**21,472**
Financial investments at amortised cost	–	4,232,749	**4,232,749**
Credit commitments	–	52,961	**52,961**
Deposits with banks and other financial institutions	–	894	**894**
Placements with banks and other financial institutions	19,027	419	**19,446**
Financial assets held under resale agreements	–	1,302	**1,302**
Total	8,936,073	3,207,954	**12,144,027**

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	Six months ended June 30,	
	2018	2017
Interest income arising from		
Deposits with central bank	**350,345**	295,511
Deposits with banks and other financial institutions	**159,230**	75,529
Placements with banks and other financial institutions	**31,622**	54,686
Loans and advances to customers		
– Corporate loans and advances	**3,512,279**	3,550,033
– Personal loans and advances	**2,390,197**	1,474,862
– Discounted bills	**188,708**	133,173
Financial assets held under resale agreements	**203,854**	62,872
Financial investments	**5,099,123**	3,874,659
Sub-total	**11,935,358**	9,521,325
Interest expense arising from		
Borrowing from the central bank	**(25,097)**	(33,970)
Deposits and placements from banks and other financial institutions	**(1,049,535)**	(775,367)
Placements from banks and other financial institutions	**(134,377)**	(23,812)
Deposits from customers	**(2,404,525)**	(1,805,687)
Financial assets sold under repurchase agreements	**(289,443)**	(337,636)
Debt securities issued	**(1,625,493)**	(931,211)
Sub-total	**(5,528,470)**	(3,907,683)
Net interest income	**6,406,888**	5,613,642

Total interest income arising from financial investments that are not at fair value through profit or loss for the period ended June 30, 2018 amounted to RMB11,802.69 million (six months ended June 30, 2017: RMB9,379.37 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period ended June 30, 2018 amounted to RMB5,528.47 million (six months ended June 30, 2017: RMB3,907.68 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	Six months ended June 30, 2018	2017
Fee and commission income		
Custodial services fees	**189,401**	27,946
Wealth management business fees	**113,213**	81,871
Underwriting fees	**107,168**	31,286
Settlement and clearing services fees	**101,486**	39,141
Agency services fees	**71,991**	19,179
Acceptance and guarantee services fees	**65,111**	28,323
Bank card services fees	**26,795**	19,186
Advisory and consulting fees	**24,800**	60,095
Sub-total	**699,965**	307,027
Fee and commission expense	**(56,860)**	(30,853)
Net fee and commission income	**643,105**	276,174

6 Net trading losses

	Note	Six months ended June 30, 2018	2017
Net losses from debt securities	(a)	**(18,245)**	(72,726)
Fair value of derivatives	(b)	**(92,888)**	–
Net foreign exchange gains/(losses)	(c)	**73,878**	(878)
Total		**(37,255)**	(73,604)

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

(b) Fair value of derivatives include the fair value of interest rate swaps and foreign exchange forwards.

(c) Net foreign exchange gains/(losses) mainly included gains from translation of foreign currency monetary assets and liabilities into Renminbi.

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains/(losses) arising from investment securities

	Note	Six months ended June 30, 2018	2017
Net losses on disposal of available-for-sale financial assets		**–**	(1,758)
Net gains of financial investments at fair value through profit or loss	(a)	**472,625**	–
Net gains of financial investments at fair value through other comprehensive income		**30,724**	–
Investment income of financial investments at amortised cost		**13,777**	–
Other net losses		**(1)**	–
Total		**517,125**	(1,758)

(a) Net gains of financial investments s at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

	Six months ended June 30, 2018	2017
Government grants	**21,812**	35,104
Rental income	**12,502**	12,559
Net gains on disposal of property and equipment	**2,424**	8,913
Others	**15,285**	4,851
Total	**52,023**	61,427

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	Six months ended June 30,	
	2018	2017
Staff costs		
– Salaries, bonuses and allowance	**1,128,762**	895,204
– Social insurance and annuity	**201,218**	147,612
– Staff welfare	**108,882**	91,748
– Housing allowance	**71,958**	58,474
– Employee education expenses and labor union expenses	**38,451**	38,583
– Others	**46,169**	26,365
Sub-total	**1,595,440**	1,257,986
Depreciation and amortisation	**388,141**	348,713
Office expenses	**517,277**	399,535
Rental and property management expenses	**152,057**	130,088
Tax and surcharges	**66,521**	50,411
Other general and administrative expenses	**156,221**	172,487
Total	**2,875,657**	2,359,220

10 Impairment losses on assets

	Six months ended June 30,	
	2018	2017
Loans and advances to customers	**1,932,551**	1,088,218
Financial investments	**306,248**	183,503
Credit commitments	**5,804**	–
Deposits with banks and other financial institutions	**(57)**	–
Placements with banks and other financial institutions	**12**	–
Financial assets held under resale agreements	**(698)**	–
Others	**44,708**	6,825
Total	**2,288,568**	1,278,546

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Income tax

(a) Income tax for the period:

	Note	Six months ended June 30, 2018	2017
Current tax		**460,873**	733,087
Deferred tax	22	**68,447**	(242,619)
Total		**529,320**	490,468

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

	Note	Six months ended June 30, 2018	2017
Profit before tax		**2,417,661**	2,238,115
Statutory tax rate		**25%**	25%
Income tax calculated at statutory tax rate		**604,415**	559,529
Non-deductible expenses			
– Staff welfare expenses		**5,335**	4,820
– Others		**675**	201
Non-taxable income	(1)	**(81,105)**	(72,089)
Changes in deductible temporary differences or deductible losses for which no deferred tax assets was recognized		**–**	(873)
Others		**–**	(1,120)
Income tax		**529,320**	490,468

(1) The non-taxable income mainly represents the interest income from the PRC government bonds and local government bonds.

12 Basic and diluted earnings per share

	Note	Six months ended June 30, 2018	2017
Net profit attributable to equity shareholders of the Bank		**1,851,543**	1,718,552
Weighted average number of ordinary shares *(in thousands)*	(a)	**20,075,000**	16,625,000
Basic and diluted earnings per share attributable to equity shareholders of the Bank *(in RMB)*		**0.09**	0.10

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

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

	Six months ended June 30, 2018	2017
Number of ordinary shares as at 1 January	**20,075,000**	16,625,000
Increase in weighted average number of ordinary shares	**–**	–
Weighted average number of ordinary shares	**20,075,000**	16,625,000

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Cash and deposits with central bank

	Note	**June 30, 2018**	December 31, 2017
Cash on hand		**1,703,637**	1,523,007
Deposits with central bank			
– Statutory deposit reserves	(a)	**40,009,720**	40,374,116
– Surplus deposit reserves	(b)	**29,066,522**	21,112,137
– Fiscal deposits		**963,341**	1,360,143
Sub-total		**70,039,583**	62,846,396
Total		**71,743,220**	64,369,403

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

	June 30, 2018	December 31, 2017
Reserve ratio for RMB deposits	**12.50%**	13.50%
Reserve ratio for foreign currency deposits	**5%**	5%

The statutory deposit reserves are not available for the Group's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	June 30, 2018	December 31, 2017
Deposits in mainland China		
– Banks	**5,784,936**	4,366,639
– Other financial institutions	**177,956**	134,644
Sub-total	**5,962,892**	4,501,283
Deposits outside mainland China		
– Banks	**576,323**	4,422,468
Total	**6,539,215**	8,923,751
Less: Provision for impairment losses	**(837)**	–
Net carrying amount	**6,538,378**	8,923,751

15 Placements with banks and other financial institutions

	June 30, 2018	December 31, 2017
Placements in mainland China		
– Banks	**1,845,971**	669,768
– Other financial institutions	**612,614**	712,614
Total	**2,458,585**	1,382,382
Less: Provision for impairment losses	**(19,458)**	(19,027)
Net carrying amount	**2,439,127**	1,363,355

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Derivative financial instruments

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

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

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

		June 30, 2018	
		Fair value	
	Notional amount	**Assets**	**Liabilities**
Interest rate swaps	11,536,000	**17,485**	**17,377**
Foreign exchange forwards	3,308,300	**–**	**92,996**
Total		**17,485**	**110,373**

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	June 30, 2018	December 31, 2017
In mainland China		
– Banks	**8,893,393**	10,909,078
– Other financial institutions	**1,258,326**	2,079,539
Total	**10,151,719**	12,988,617
Less: Provision for impairment losses	**(603)**	–
Net carrying amount	**10,151,116**	12,988,617

(b) Analysed by type of collateral held

	June 30, 2018	December 31, 2017
Debt securities	**9,911,119**	12,988,617
Discounted bills	**240,600**	–
Total	**10,151,719**	12,988,617
Less: Provision for impairment losses	**(603)**	–
Net carrying amount	**10,151,116**	12,988,617

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers

(a) Analysed by nature

	June 30, 2018
Loans and advances to customers measured at amortised cost	
Corporate loans and advances	**125,166,267**
Personal loans and advances	
– Residential mortgage	**45,600,211**
– Personal consumption loans	**20,164,987**
– Personal business loans	**19,786,928**
– Others	**1,176,346**
Sub-total	**86,728,472**
Less: provision for loans and advances to customers measured at amortised cost	**(7,290,958)**
Sub-total	**204,603,781**
Loans and advances to customers measured at fair value through other comprehensive income	
Corporate loans and advances	**131,176**
Discounted bills	**6,830,506**
Sub-total	**6,961,682**
Net loans and advances to customers	**211,565,463**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(a) Analysed by nature (Continued)

	December 31, 2017
Corporate loans and advances	112,849,592
Personal loans and advances	
– Residential mortgage	39,977,289
– Personal business loans	20,208,988
– Personal consumption loans	13,494,014
– Others	250,847
Sub-total	73,931,138
Discounted bills	12,122,219
Gross loans and advances to customers	198,902,949
Less: Provision for impairment losses	
– Individually assessed	(1,864,974)
– Collectively assessed	(5,329,140)
Total provision for impairment losses	(7,194,114)
Net loans and advances to customers	191,708,835

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analysed by economic sector

	June 30, 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	**29,831,488**	**13.63%**	**8,164,961**
Renting and business activities	**20,606,322**	**9.42%**	**9,599,933**
Wholesale and retail trade	**18,048,111**	**8.25%**	**8,184,518**
Real estate	**17,557,283**	**8.02%**	**13,254,329**
Construction	**9,736,226**	**4.45%**	**3,763,711**
Water, environment and public utility	**6,867,916**	**3.14%**	**2,528,660**
Production and supply of electric power, gas and water	**4,237,342**	**1.94%**	**1,089,477**
Agriculture, forestry, animal husbandry and fishery	**4,116,499**	**1.88%**	**911,788**
Accommodation and catering	**3,437,909**	**1.57%**	**1,886,815**
Mining	**3,117,189**	**1.42%**	**298,197**
Education	**2,645,183**	**1.21%**	**1,435,694**
Transportation, storage and postal services	**2,011,184**	**0.92%**	**924,885**
Others	**3,084,791**	**1.40%**	**1,018,444**
Sub-total of corporate loans and advances	**125,297,443**	**57.25%**	**53,061,412**
Personal loans and advances	**86,728,472**	**39.63%**	**69,736,268**
Discounted bills	**6,830,506**	**3.12%**	**5,269,775**
Gross loans and advances to customers	**218,856,421**	**100.00%**	**128,067,455**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analysed by economic sector (Continued)

	December 31, 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	30,642,527	15.42%	8,059,591
Wholesale and retail trade	18,984,248	9.54%	8,908,906
Renting and business activities	16,556,287	8.32%	7,103,720
Real estate	11,424,047	5.74%	8,449,793
Construction	8,856,739	4.45%	3,318,807
Water, environment and public utility	4,615,113	2.32%	2,014,040
Agriculture, forestry, animal husbandry and fishery	4,283,426	2.15%	975,296
Production and supply of electric power, gas and water	3,920,081	1.97%	1,177,357
Accommodation and catering	3,223,148	1.62%	1,719,112
Mining	2,384,758	1.20%	404,770
Education	2,270,378	1.14%	1,169,119
Transportation, storage and postal services	2,084,724	1.05%	1,060,625
Others	3,604,116	1.82%	1,356,482
Sub-total of corporate loans and advances	112,849,592	56.74%	45,717,618
Personal loans and advances	73,931,138	37.17%	59,973,753
Discounted bills	12,122,219	6.09%	9,735,446
Gross loans and advances to customers	198,902,949	100.00%	115,426,817

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(c) Analysed by type of collateral

	June 30, 2018
Unsecured loans	**14,430,089**
Guaranteed loans	**76,358,877**
Collateralised	**108,918,790**
Pledged	**19,148,665**
Gross loans and advances to customers	**218,856,421**
Less: provision for loans and advances to customers measured at amortised cost	**(7,290,958)**
Net loans and advances to customers	**211,565,463**

	December 31, 2017
Unsecured loans	9,202,443
Guaranteed loans	74,273,689
Collateralised	89,632,833
Pledged	25,793,984
Gross loans and advances to customers	198,902,949
Less: Provision for impairment losses	
– Individually assessed	(1,864,974)
– Collectively assessed	(5,329,140)
Total provision for impairment losses	(7,194,114)
Net loans and advances to customers	191,708,835

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(d) Overdue loans analysed by overdue period

	June 30, 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	147,999	77,911	2,458	1,620	229,988
Guaranteed loans	2,084,698	2,918,065	1,566,263	206,324	6,775,350
Collateralised	983,151	1,559,195	2,205,069	121,431	4,868,846
Pledged	21,980	22,728	234,300	–	279,008
Total	3,237,828	4,577,899	4,008,090	329,375	12,153,192
As a percentage of gross loans and advances to customers	1.48%	2.09%	1.83%	0.15%	5.55%

	December 31, 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	199,824	10,227	21,952	1,094	233,097
Guaranteed loans	1,466,103	2,705,975	1,426,981	173,440	5,772,499
Collateralised	801,001	1,471,694	1,382,734	95,142	3,750,571
Pledged	29,924	30,436	737,456	–	797,816
Total	2,496,852	4,218,332	3,569,123	269,676	10,553,983
As a percentage of gross loans and advances to customers	1.26%	2.12%	1.79%	0.14%	5.31%

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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

(i) As at June 30, 2018, detailed information of Loans and advances to customers and provision for impairment losses is as follows:

	June 30, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	197,789,314	5,656,788	8,448,637	211,894,739
Less: Provision for impairment losses	(1,657,132)	(1,044,748)	(4,589,078)	(7,290,958)
Carrying amount of loans and advances to customers measured at amortised cost	196,132,182	4,612,040	3,859,559	204,603,781
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,475,501	12,200	473,981	6,961,682
Total carrying amount of loans and advances to customers	202,607,683	4,624,240	4,333,540	211,565,463

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

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

(ii) As at December 31, 2017, detailed information of Loans and advances to customers and provision for impairment losses is as follows:

	December 31, 2017				
		Impaired loans and advances			
	Loans and advances for which provision are collectively assessed	for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	195,260,403	1,055,725	2,586,821	198,902,949	1.83%
Less: Provision for impairment losses	(4,498,017)	(831,123)	(1,864,974)	(7,194,114)	
Net loans and advances to customers	190,762,386	224,602	721,847	191,708,835	

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

(i) As at June 30, 2018, movements of provision for impairment of loans and advances to customers measured at amortised cost:

	Six months ended June 30, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,774,462	1,004,139	4,886,086	7,664,687
Transferred:				
– to expected credit losses over the next 12 months	109,607	(93,742)	(15,865)	–
– to lifetime expected credit losses: not credit-impaired loans	(158,784)	160,184	(1,400)	–
– to lifetime expected credit losses: credit-impaired loans	(51,997)	(325,510)	377,507	–
(Release)/charge for the period	(16,156)	299,677	1,651,138	1,934,659
Transfer out	–	–	(15,412)	(15,412)
Recoveries	–	–	114,359	114,359
Write-offs	–	–	(2,326,895)	(2,326,895)
Unwinding of discount	–	–	(80,440)	(80,440)
As at June 30	1,657,132	1,044,748	4,589,078	7,290,958

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

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

(ii) As at June 30, 2018, movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	Six months ended June 30, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	8,321	1	142,194	150,516
Transferred:				
– to lifetime expected credit losses:				
not credit-impaired loans	(81)	81	–	–
Release for the period	(2,028)	(80)	–	(2,108)
As at June 30	6,212	2	142,194	148,408

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

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

(iii) As at December 31, 2017, movements of provision for impairment losses is as follows:

	Year ended December 31, 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at January 1	4,106,671	833,971	1,400,604	6,341,246
Charge for the year	391,346	167,057	663,510	1,221,913
Recoveries	–	5,181	99,019	104,200
Write-offs	–	(175,086)	(247,418)	(422,504)
Unwinding of discount	–	–	(50,741)	(50,741)
As at December 31	4,498,017	831,123	1,864,974	7,194,114

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB8,623.80 million to asset management companies and institutional investors at a consideration of RMB8,270.01 million. As at June 30, 2018, the Group has received cash of RMB6,791.20 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments

	Note	June 30, 2018	December 31, 2017
Financial investments at fair value through profit or loss	(a)	**38,470,307**	9,865,812
Financial investments at fair value through other comprehensive income	(b)	**33,364,979**	–
Financial investments at amortised cost	(c)	**152,358,487**	–
Available-for-sale financial assets	(d)	**–**	94,558,846
Held-to-maturity investments	(e)	**–**	23,735,307
Debt securities classified as receivables	(f)	**–**	98,764,236
Total		**224,193,773**	226,924,201

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

	Note	June 30, 2018	December 31, 2017
Debt securities	(i)		
– Government		**1,328,923**	582,167
– Policy banks		**1,524,638**	952,922
– Banks and other financial institutions		**5,197,371**	8,041,970
– Corporate		**647,827**	288,753
Sub-total		**8,698,759**	9,865,812
Wealth management products issued by financial institutions		**20,161,820**	–
Investment management products managed by securities companies		**9,604,691**	–
Investment management products managed by trust plans		**5,037**	–
Total		**38,470,307**	9,865,812

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 38(f)). No other investment were subject to material restrictions in the realization.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

	Note	June 30, 2018
Debt securities	(i)	
– Government		**5,271,175**
– Policy banks		**8,438,178**
– Banks and other financial institutions		**11,009,569**
– Corporate		**5,504,901**
Sub-total		**30,223,823**
Investment portfolio managed by financial institutions		**2,361,163**
Private debt financing plans		**330,584**
Investment management products managed by securities companies		**244,137**
Investment management products managed by trust plans		**181,376**
Equity investments at cost	(ii)	**23,896**
Total		**33,364,979**

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 38(f)). No other investment were subject to material restrictions in the realization.

(ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. As at June 30, 2018, the fair value of such equity investments was RMB23.90 million. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

(iii) As at June 30, 2018, movements of financial investments at fair value through other comprehensive income is as follows:

	Six months ended June 30, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	21,472	–	–	21,472
Transfers:				
– to lifetime expected credit losses credit-impaired	(125)	–	125	–
(Release)/ charge for the period	(14,366)	–	31,375	17,009
Balance at June 30	6,981	–	31,500	38,481

(c) Financial investments at amortised cost

	Note	June 30, 2018
Debt securities	(i)	
– Government		18,181,946
– Policy banks		13,615,468
– Corporate		4,307,180
Sub-total		36,104,594
Investment management products managed by trust plans		80,079,339
Investment fund managed by private fund manager		24,346,401
Investment management products managed by securities companies		10,826,977
Debt investment plans		3,300,000
Investment fund managed by financial institutions		2,223,164
Sub-total		120,775,881
Less: Provision for impairment losses	(ii)	(4,521,988)
Total		152,358,487

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 38(f)). No other investment were subject to material restrictions in the realization.

(ii) As at June 30, 2018, movements of financial investments at amortised cost is as follows:

	Six months ended June 30, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	260,342	95,627	3,876,780	4,232,749
Transfers:				
– to expected credit losses over the next 12 months	20,671	(20,671)	–	–
– to lifetime expected credit losses credit-impaired	(3,158)	(63,742)	66,900	–
Charge/(release) for the period	306	(11,214)	300,147	289,239
Balance at June 30	278,161	–	4,243,827	4,521,988

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(d) Available-for-sale financial assets

	Note	December 31, 2017
Equity investment at cost		
– Unlisted	(i)	23,896
Debt securities at fair value		
– Government		8,227,603
– Policy banks		13,121,945
– Banks and other financial institutions		15,130,459
– Corporate		5,974,810
Sub-total		42,454,817
Listed		8,537,790
Unlisted		33,917,027
Sub-total		42,454,817
Investment management products managed by securities companies and trust plans		
– Unlisted		11,177,367
Wealth management products issued by financial institutions		
– Unlisted		31,471,850
Investment fund managed by private fund manager		
– Unlisted	(ii)	4,691,463
Investment fund managed by financial institutions		
– Unlisted		2,295,306
Investment portfolio managed by financial institutions		
– Unlisted	(iii)	2,444,147
Total		94,558,846

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

(i) 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.

(ii) The underlying assets of investment fund managed by private fund manager are the beneficial rights of certain loans. The principal of the investment fund is guaranteed by an asset management company in the PRC.

(iii) Investment portfolio managed by financial institutions represented investments in funds, bonds, trust schemes, and wealth management products.

(iv) As at the end of the reporting period, certain available-for-sale financial assets were pledged for repurchase agreements (Note 38(f)). No other investments were subject to material restrictions on the realization.

(e) Held-to-maturity investments

	Note	December 31, 2017
Debt Securities issued by the following institutions in mainland China		
– Government		12,504,577
– Policy banks		9,243,571
– Banks and other financial institutions		836,206
– Corporates		1,150,953
Total	(i)	23,735,307
– Listed		12,134,737
– Unlisted		11,600,570
Total	(ii)	23,735,307
Fair value		22,874,827

(i) As at the end of the reporting period, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 38(f)).

(ii) The Group did not dispose of material held-to-maturity debt investments prior to their maturity dates during the reporting period.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(f) Debt securities classified as receivables

	December 31, 2017
Investment management products managed by trust plans	66,216,954
Investment management products managed by securities companies	10,588,900
Investment management products managed by private fund manager	19,985,954
Debt investment plans	1,900,000
Debt securities funds managed by financial institutions	776,916
Sub-total	99,468,724
Less: Provision for impairment losses	(704,488)
Net carrying amount	98,764,236

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Investment in subsidiaries

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

	Note	June 30, 2018	December 31, 2017
Xiping Fortune County Bank Co., Ltd. ("西平財富村鎮銀行股份有限公司")	(a)	**176,686**	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("信陽平橋中原村鎮銀行股份有限公司")	(b)	**38,341**	38,341
Qixian Zhongyuan County Bank Co., Ltd. ("淇縣中原村鎮銀行股份有限公司")	(c)	**41,531**	41,531
Henan Xinxiang Xinxing County Bank Co., Ltd. ("河南新鄉新興村鎮銀行股份有限公司")	(d)	**58,806**	58,806
Linzhou Defeng County Bank Co., Ltd. ("林州德豐村鎮銀行股份有限公司")	(e)	**29,771**	29,771
Puyang Zhongyuan County Bank Co., Ltd. ("濮陽中原村鎮銀行股份有限公司")	(f)	**30,736**	30,736
Lushi Zhongyuan County Bank Co., Ltd. ("盧氏中原村鎮銀行股份有限公司")	(g)	**32,497**	32,497
Xiangcheng Huipu County Bank Co., Ltd. ("襄城匯浦村鎮銀行股份有限公司")	(h)	**28,250**	28,250
Suiping Zhongyuan County Bank Co., Ltd. ("遂平中原村鎮銀行股份有限公司")	(i)	**35,084**	35,084
Henan Zhongyuan Consumer Finance Corp., Ltd. ("河南中原消費金融股份有限公司")	(j)	**625,000**	325,000
Total		**1,096,702**	796,702

20 Investment in subsidiaries (Continued)

Notes:

(a) Xiping Fortune County Bank Co., Ltd. ("Xiping Fortune") was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest and voting rights of Xiping Fortune in the year 2017 and for the six months in 2018. According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping Fortune in 2017, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank during the reporting period.

(b) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("Xinyang Pingqiao", formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB69.60 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. Xinyang Pingqiao is the subsidiary of the Bank. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao.

(c) Qixian Zhongyuan County Bank Co., Ltd. ("Qixian Zhongyuan", formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. Qixian Zhongyuan is the subsidiary of the Bank. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan.

(d) Henan Xinxiang Xinxing County Bank Co., Ltd. ("Xinxiang Xinxing") was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB130.00 million. The principal activities of Xinxiang Xinxing are the provision of corporate and retail banking services. The Bank holds 31.54% of equity interest of Xinxiang Xinxing. According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Xinxing, Xinxiang Xinxing was deemed to be controlled by the Bank and was a subsidiary of the Bank during the reporting period.

(e) Linzhou Defeng County Bank Co., Ltd. ("Linzhou Defeng") was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB75.00 million. The principal activities of Linzhou Defeng are the provision of corporate and retail banking services. Linzhou Defeng is the subsidiary of the Bank. The Bank holds 51% of equity interest and voting rights of Linzhou Defeng.

(f) Puyang Zhongyuan County Bank Co., Ltd. ("Puyang Zhongyuan", formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. Puyang Zhongyuan is the subsidiary of the Bank. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan.

20 Investment in subsidiaries (Continued)

Notes: (Continued)

(g) Lushi Zhongyuan County Bank Co., Ltd. ("Lushi Zhongyuan", formerly known as Lushi Defeng County Bank Co., Ltd.) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB60.00 million. The principal activities of Lushi Zhongyuan are the provision of corporate and retail banking services. Lushi Zhongyuan is the subsidiary of the Bank. The Bank holds 51% of equity interest of Lushi Zhongyuan.

(h) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu in the year 2017 and for the six months in 2018. According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since the year 2015.

(i) Suiping Zhongyuan County Bank Co., Ltd. ("Suiping Zhongyuan", formerly known as Suiping Hengsheng County Bank Co., Ltd.) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Zhongyuan.

(j) Henan Zhongyuan Consumer finance Corp., Ltd. ("Consumer Finance") was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB500.00 million. The principal activities of Consumer Finance is the provision loans for consumption. After the capital injection of RMB300.00 million by the Bank on February 9, 2018, the registered capital of Consumer Finance amounted to RMB800.00 million, and the Bank holds 78.13% of equity interest and voting rights of Consumer Finance.

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
As at January 1, 2017	5,349,802	158,493	936,410	32,687	363,433	450,797	7,291,622
Additions	37,364	–	172,992	402	51,278	112,054	374,090
Disposals	(34,008)	(34,422)	(14,626)	(3,296)	(1,692)	–	(88,044)
Transfers out of construction in progress	–	–	–	–	–	(13,457)	(13,457)
As at December 31, 2017	5,353,158	124,071	1,094,776	29,793	413,019	549,394	7,564,211
Additions	1,107	–	40,276	1,002	20,507	65,494	128,386
Disposals	(46,606)	(9,668)	(5,015)	(1,636)	(608)	–	(63,533)
Transfers out of construction in progress	–	–	–	–	–	(33,900)	(33,900)
As at June 30, 2018	5,307,659	114,403	1,130,037	29,159	432,918	580,988	7,595,164
Accumulated depreciation							
As at 1 January 2017	(1,546,394)	(68,777)	(639,150)	(27,224)	(211,355)	–	(2,492,900)
Additions	(298,993)	(8,358)	(148,146)	(2,068)	(37,343)	–	(494,908)
Disposals	12,733	17,927	8,245	3,033	1,327	–	43,265
As at December 31, 2017	(1,832,654)	(59,208)	(779,051)	(26,259)	(247,371)	–	(2,944,543)
Additions	(150,517)	(3,827)	(84,145)	(787)	(20,341)	–	(259,617)
Disposals	25,019	5,299	4,818	1,598	335	–	37,069
As at June 30, 2018	(1,958,152)	(57,736)	(858,378)	(25,448)	(267,377)	–	(3,167,091)
Impairment							
As at 1 January 2017	(8,476)	–	(2,463)	(283)	(2,032)	–	(13,254)
Disposals	92	–	60	54	2	–	208
As at December 31, 2017	(8,384)	–	(2,403)	(229)	(2,030)	–	(13,046)
Disposals	424	–	3	–	–	–	427
As at June 30, 2018	(7,960)	–	(2,400)	(229)	(2,030)	–	(12,619)
Net book value							
As at December 31, 2017	3,512,120	64,863	313,322	3,305	163,618	549,394	4,606,622
As at June 30, 2018	3,341,547	56,667	269,259	3,482	163,511	580,988	4,415,454

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment (Continued)

The carrying amount of the premises with incomplete title deeds as at June 30, 2018 was RMB941.79 million (December 31, 2017: RMB1,061.60 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Bank 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:

	June 30, 2018	December 31, 2017
Held in mainland China		
– Long-term leases (over 50 years)	**1,046,447**	1,138,337
– Medium-term leases (10–50 years)	**1,602,518**	1,701,974
– Short-term leases (less than 10 years)	**692,582**	671,809
Total	**3,341,547**	3,512,120

The net book value of investment properties at the end of the reporting period are analyzed by the remaining terms of the leases as follows:

	June 30, 2018	December 31, 2017
Held in mainland China		
– Medium-term leases (10–50 years)	**56,667**	64,863

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Deferred tax assets

(a) Analysed by nature

	June 30, 2018		December 31, 2017	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	10,226,628	2,556,657	7,357,152	1,839,288
Accrued staff costs	1,055,724	263,931	849,284	212,321
Supplemental retirement benefits	115,316	28,829	123,016	30,754
Fair value changes in financial instruments	(62,600)	(15,650)	1,369,184	342,296
Deferred income	471,264	117,816	429,832	107,458
Assets appraisal and related depreciation	(1,955,372)	(488,843)	(2,044,228)	(511,057)
Others	172,564	43,141	99,432	24,858
Net balances	10,023,524	2,505,881	8,183,672	2,045,918

(b) Movement of the deferred tax

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2017	1,507,171	258,811	37,136	208,290	55,070	(557,034)	20,130	1,529,574
Recognized in profit or loss	332,117	(46,490)	(6,382)	12,655	52,388	45,977	4,728	394,993
Recognized in other comprehensive income	–	–	–	121,351	–	–	–	121,351
December 31, 2017	1,839,288	212,321	30,754	342,296	107,458	(511,057)	24,858	2,045,918
Impact on initial application of IFRS 9	788,748	–	–	(204,531)	–	–	13,241	597,458
January 1, 2018	2,628,036	212,321	30,754	137,765	107,458	(511,057)	38,099	2,643,376
Recognized in profit or loss	(71,379)	51,610	(1,925)	(84,367)	10,358	22,214	5,042	(68,447)
Recognized in other comprehensive income	–	–	–	(69,048)	–	–	–	(69,048)
June 30, 2018	2,556,657	263,931	28,829	(15,650)	117,816	(488,843)	43,141	2,505,881

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Goodwill

	Goodwill
Cost:	
At December 31, 2017 and June 30, 2018	468,397
Accumulated impairment losses:	
At December 31, 2017 and June 30, 2018	–
Carrying amount:	
At December 31, 2017 and June 30, 2018	468,397

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	June 30, 2018	December 31, 2017
Corporate banking	**309,219**	309,219
Retail banking	**97,029**	97,029
Financial markets business	**62,149**	62,149
Total	**468,397**	468,397

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 13.05% and 11.35% as at December 31, 2017 and June 30, 2018 respectively. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets

	Note	June 30, 2018	December 31, 2017
Interests receivable	(a)	**3,410,783**	3,516,149
Receivables from disposal of loans	18(g)	**1,318,048**	1,387,381
Intangible assets	(b)	**1,245,018**	1,264,170
Repossessed assets		**1,356,150**	1,114,820
Leasehold improvements		**462,856**	464,401
Advances for fiscal payments		**1,767,905**	–
Other receivables		**1,437,245**	843,806
Total		**10,998,005**	8,590,727

(a) Interests receivable

	June 30, 2018	December 31, 2017
Interests receivable arising from:		
– Financial investments	**1,986,961**	2,236,107
– Loans and advances to customers	**1,336,796**	1,188,808
– Others	**87,026**	91,234
Total	**3,410,783**	3,516,149

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets (Continued)

(b) Intangible assets

	June 30, 2018	December 31, 2017
Cost		
As at 1 January	**1,702,036**	1,568,889
Additions	**44,394**	144,144
Disposals	**(18,114)**	(10,997)
As at June 30/December 31	**1,728,316**	1,702,036
Accumulated amortisation		
As at 1 January	**(427,459)**	(322,771)
Additions	**(63,331)**	(106,970)
Disposals	**17,899**	2,282
As at June 30/December 31	**(472,891)**	(427,459)
Impairment		
As at 1 January	**(10,407)**	(10,515)
Disposals	**–**	108
As at June 30/December 31	**(10,407)**	(10,407)
Net book value		
As at 1 January	**1,264,170**	1,235,603
As at June 30/December 31	**1,245,018**	1,264,170

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Deposits from banks and other financial institutions

Analyzed by type of counterparty

	June 30, 2018	December 31, 2017
In mainland China		
– Banks	**11,907,870**	18,007,187
– Other financial institutions	**32,656,990**	21,643,645
Total	**44,564,860**	39,650,832

26 Placements from banks and other financial institutions

Analyzed by type of counterparty

	June 30, 2018	December 31, 2017
In mainland China		
– Banks	**11,258,262**	5,085,684
– Other financial institutions	**200,000**	631,421
Outside mainland China		
– Banks	**261,284**	–
Total	**11,719,546**	5,717,105

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	June 30, 2018	December 31, 2017
In mainland China		
– Banks	**27,138,150**	38,391,391
– Other financial institutions	**288,800**	2,418,457
Total	**27,426,950**	40,809,848

(b) Analysed by type of collateral held

	June 30, 2018	December 31, 2017
Debt securities	**27,426,950**	39,960,202
Discounted bills	**–**	849,646
Total	**27,426,950**	40,809,848

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Deposits from customers

	June 30, 2018	December 31, 2017
Demand deposits		
– Corporate deposits	**133,548,369**	124,625,366
– Personal deposits	**50,092,778**	48,355,209
Sub-total	**183,641,147**	172,980,575
Time deposits		
– Corporate deposits	**35,695,457**	31,998,949
– Personal deposits	**89,026,604**	76,287,727
Sub-total	**124,722,061**	108,286,676
Pledged deposits		
– Acceptances	**20,899,839**	17,611,171
– Letters of credit and guarantees	**8,249,215**	6,841,263
– Others	**687,474**	645,995
Sub-total	**29,836,528**	25,098,429
Inward and outward remittances	**659,712**	342,604
Total	**338,859,448**	306,708,284

29 Debt securities issued

	Note	June 30, 2018	December 31, 2017
Interbank deposits issued	(a)	**62,412,290**	74,128,630
Financial bonds	(b)	**2,999,189**	–
Total		**65,411,479**	74,128,630

(a) For the six months ended June 30, 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB43,940.00 million and duration between 1–12 months. The coupon rates ranged from 3.10% to 5.15% per annum.

In 2017, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB131,540.00 million and duration between 3–12 months. The coupon rates ranged from 3.7% to 5.8% per annum.

As at June 30, 2018, the fair value of interbank deposits issued was RMB62,540.37 million (December 31, 2017: RMB73,976.14 million).

(b) Fixed rate financial bonds of RMB1.5 billion with a term of three years was issued in May 2018. The coupon rate is 4.79% per annum.

Fixed rate green financial bonds of RMB1.5 billion with a term of three years was issued in April 2018. The coupon rate is 4.70% per annum.

As at June 30, 2018, the fair value of financial bonds issued was RMB3,004.71 million (December 31, 2017: nil).

30 Other liabilities

	Note	June 30, 2018	December 31, 2017
Interest payable	(a)	**3,006,053**	2,965,736
Payment and collection clearance accounts		**1,044,534**	774,482
Accrued staff costs	(b)	**1,342,124**	1,658,664
Other tax payable		**361,957**	274,380
Dividend payable		**899,734**	189,898
Provisions	(c)	**84,731**	25,966
Other payable		**685,527**	687,603
Total		**7,424,660**	6,576,729

(a) Interest payable

	June 30, 2018	December 31, 2017
Interest payable arising from:		
– Deposits from customers	**2,540,042**	2,544,173
– Deposits and placements from banks and other financial institutions	**434,897**	405,178
– Repurchase agreements	**10,435**	16,318
– Debt securities	**20,618**	–
– Others	**61**	67
Total	**3,006,053**	2,965,736

30 Other liabilities (Continued)

(b) Accrued staff costs

	Note	June 30, 2018	December 31, 2017
Salary, bonuses and allowances payable		**1,063,886**	1,420,685
Social insurance payable		**75,129**	32,296
Housing allowances payable		**6,182**	3
Labor union fee, staff and workers' education fee		**78,515**	79,993
Supplementary retirement benefits payable	(1)	**118,412**	125,687
Total		**1,342,124**	1,658,664

(1) Supplementary retirement benefits payable

The supplementary retirement benefits of the Bank include early retirement plan and supplementary retirement plan. The early retirement benefits 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 Bank's eligible employees.

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

	June 30, 2018	December 31, 2017
Present value of early retirement plan	**109,957**	117,722
Present value of supplementary retirement plan	**8,455**	7,965
Total	**118,412**	125,687

30 Other liabilities (Continued)

(b) Accrued staff costs (Continued)

(1) Supplementary retirement benefits payable (Continued)

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

	June 30, 2018	December 31, 2017
As at 1 January	**125,687**	149,699
Benefits paid during the period/year	**(11,895)**	(24,297)
Defined benefit cost recognised in profit or loss	**4,196**	(1,229)
Defined benefit cost recognised in other comprehensive income	**424**	1,514
As at June 30/December 31	**118,412**	125,687

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

Early retirement plan	June 30, 2018	December 31, 2017
Discount rate	**3.50%**	3.75%
Annual increase rate of internal salary	**4.50%**	4.50%

Supplementary retirement plan	June 30, 2018	December 31, 2017
Discount rate	**4.00%**	4.25%

30 Other liabilities (Continued)

(c) Provisions

	Note	June 30, 2018	December 31, 2017
Litigations and disputes provision		**25,966**	25,966
Credit commitments provision	(i)	**58,765**	–
Total		**84,731**	25,966

(i) As at June 30, 2018, movements of credit commitments provision is as follows:

	Six months ended June 30, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	51,149	1,806	6	52,961
Transfers:				
– to expected credit losses over the next 12 months	53	(48)	(5)	–
– to lifetime expected credit losses credit-impaired	–	(3)	3	–
Charge/(release) for the period	7,443	(1,687)	48	5,804
Balance at June 30	58,645	68	52	58,765

31 Share capital

Authorised and issued share capital

	Number of shares	Amount
As at December 31, 2017	20,075,000	20,075,000
As at June 30, 2018	20,075,000	20,075,000

32 Reserves

(a) Capital reserve

	Note	June 30, 2018	December 31, 2017
Share premium		**14,477,471**	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	**(68,386)**	(938,921)
Impairment losses recognized in other comprehensive income	(ii)	**186,889**	–
Changes on remeasurement of defined benefit liabilities	(iii)	**(3,094)**	(2,670)
Changes in ownership in subsidiaries without changes in control		**(7,596)**	(361)
Total		**14,585,284**	13,535,519

(i) Investment revaluation

	June 30, 2018	December 31, 2017
As at January 1	**(274,882)**	(574,870)
Changes in fair value recognised in other comprehensive income	**135,801**	(839,722)
Transfer to profit or loss upon disposal	**139,527**	354,320
Less: deferred income tax	**(68,832)**	121,351
As at June 30/December 31	**(68,386)**	(938,921)

32 Reserves (Continued)

(a) Capital reserve (Continued)

(ii) Impairment reserve

	June 30, 2018
As at January 1	**171,988**
Impairment losses recognized in other comprehensive income	**14,901**
As at June 30	**186,889**

(iii) Deficit on remeasurement of net defined benefit liability

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

	June 30, 2018	December 31, 2017
As at January 1	**(2,670)**	(1,156)
Changes in fair value recognised in other comprehensive income	**(424)**	(1,514)
As at June 30/December 31	**(3,094)**	(2,670)

(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.

32 Reserves (Continued)

(c) General reserve

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.

33 Profit distribution

At the Bank's Annual General Meeting held on May 16, 2018, the shareholders approved the profit distribution plan for the year ended December 31, 2017:

– Appropriation of statutory surplus reserve amounted to RMB381.00 million;

– Appropriation of general reserve amounted to RMB1,251.54 million; and

– Declaration of cash dividend of RMB0.71 per 10 shares before tax and in aggregation amount of RMB1,425.33 million to all shareholders.

At the Bank's Annual General Meeting held on April 6, 2017, the shareholders approved the profit distribution plan for the year ended December 31, 2016:

– Appropriation of statutory surplus reserve amounted to RMB334.72 million;

– Appropriation of general reserve amounted to RMB2,925.63 million.

As at June 30, 2018, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB39.69 million to surplus reserve made by subsidiaries (December 31, 2017: RMB36.06 million).

34 Notes to consolidated cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	June 30, 2018	June 30, 2017
Cash and cash equivalents as at June 30	**46,909,452**	21,253,722
Less: Cash and cash equivalents as at January 1	**43,080,066**	43,741,320
Net increase/(decrease) in cash and cash equivalents	**3,829,386**	(22,487,598)

(b) Cash and cash equivalents comprise:

	June 30, 2018	June 30, 2017
Cash on hand	**1,703,637**	1,376,532
Deposits with the central bank	**29,066,522**	15,055,108
Deposits with banks and other financial institutions	**5,113,378**	2,637,032
Placements with banks and other financial institutions	**874,799**	1,085,212
Financial assets held under resale agreements	**10,151,116**	1,099,838
Total	**46,909,452**	21,253,722

35 Related party relationships and transactions

(a) Relationship of significant related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	June 30, 2018	December 31, 2017
Henan Investment Group Co., Ltd.	**7.01%**	7.01%
Henan Energy and Chemical Engineering Group Co., Ltd.(*)	**6.48%**	6.48%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	**5.76%**	5.76%
Tian Kun Investment Ltd.	**4.99%**	3.62%
Henan Shengrun Holdings Co., Ltd.	**3.75%**	3.75%

* The interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Kaifeng Tieta Rubber (Group) Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., and Henan Guolong Mineral Construction Co., Ltd.

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries 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 35(a)(i) or their controlling shareholders.

35 Related party relationships and transactions (Continued)

(b) Related party transactions and balances

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

(i) Transactions with major shareholders

	June 30, 2018	December 31, 2017
Balances at the end of the period/ year:		
Loans and advances to customers	**300,000**	1,100,000
Financial investments	**930,830**	1,726,710
Interests receivable	**11,754**	10,752
Deposits from customers	**111,771**	194,900
Interest payable	**11**	23

	Six months ended June 30,	
	2018	2017
Transactions during the period:		
Interest income	**50,772**	58,445
Interest expense	**548**	993

(ii) Transactions with subsidiaries

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

35 Related party relationships and transactions (Continued)

(b) Related party transactions and balances (Continued)

(iii) Transactions with other related parties

	June 30, 2018	December 31, 2017
Balances at the end of the period/ year:		
Loans and advances to customers	**3,072,564**	2,703,434
Financial investments	**3,333,500**	2,327,500
Interests receivable	**19,744**	8,757
Deposits from customers	**6,588,414**	3,610,435
Deposits from banks and other financial institutions	**803,929**	870,338
Interest payable	**48,775**	26,896

	Six months ended June 30,	
	2018	2017
Transactions during the period:		
Interest income	**199,177**	133,042
Interest expense	**72,708**	30,978
Operation expenses	**5,512**	4,026

(c) Key management personnel

(i) Transactions with key management personnel

	June 30, 2018	December 31, 2017
Balances at the end of the period/ year:		
Loans and advances to customers	**39,369**	17,434
Deposits from customers	**13,456**	9,949
Interests receivable	**56**	26
Interest payable	**14**	12

35 Related party relationships and transactions (Continued)

(c) Key management personnel (Continued)

(i) Transactions with key management personnel (Continued)

	Six months ended June 30,	
	2018	2017
Transactions during the period:		
Interest income	**875**	361
Interest expense	**62**	35

(ii) Key management personnel remuneration

	Six months ended June 30,	
	2018	2017
Salaries and other emoluments	**5,981**	6,552
Discretionary bonuses	**3,408**	5,045
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	**1,522**	1,158
Total	**10,911**	12,755

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

36 Fair value

(a) Methods and assumptions for measurement of fair value

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

(i) Debt securities and equity investments

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

(ii) Investments and other non-derivative financial assets

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

(iii) 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 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 the reporting period. 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.

(iv) Derivative financial instruments

The fair values of foreign currency forward contracts is determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

36 Fair value (Continued)

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Available-for-sale investments, financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 19. Financial investments at amortised cost and the carrying amounts of debt securities classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debts issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 29. The carrying amounts of other financial liabilities approximate their fair value.

36 Fair value (Continued)

(c) Fair value hierarchy

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

Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: Fair value measured using significant unobservable inputs

Financial investments

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Loans and advances to customers

Discounted bills in loans and advances to customers are valued by using a discounted cash flow model. For the bank acceptance bills, the discounted rate is established based on the acceptors' credit risk and market transaction data; for the commercial acceptance bills, the discounted rate is established based on the interbank offered rates and spreads adjusted by credit risk and liquidity.

36 Fair value (Continued)

(c) Fair value hierarchy (Continued)

Derivatives

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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss	–	38,470,307	–	38,470,307
Derivative financial assets	–	17,485	–	17,485
Financial investments at fair value through other comprehensive income	–	33,364,979	–	33,364,979
Loans and advances to customers measured at fair value through other comprehensive income	–	6,961,682	–	6,961,682
Total	–	78,814,453	–	78,814,453
Liabilities				
Derivative financial liabilities	–	(110,373)	–	(110,373)

36 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets held for trading				
– debt instruments	–	9,865,812	–	9,865,812
Available-for-sale financial assets				
– debt instruments	–	42,454,817	–	42,454,817
– investment management products	–	11,177,367	–	11,177,367
– wealth management products	–	31,471,850	–	31,471,850
– others	–	9,430,916	–	9,430,916
Total	–	104,400,762	–	104,400,762

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

37 Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	June 30, 2018	December 31, 2017
Entrusted loans	**36,370,067**	37,950,480
Entrusted funds	**36,370,067**	37,950,480

38 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans 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. 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 the customers.

	June 30, 2018	December 31, 2017
Bank acceptances	**34,345,878**	30,413,732
Letters of credit	**8,650,160**	4,448,412
Loan commitments	**4,820,109**	2,710,458
Letters of guarantees	**2,531,143**	984,224
Total	**50,347,290**	38,556,826

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

	June 30, 2018	December 31, 2017
Credit risk-weighted amount of contingent liabilities and commitments	**27,377,186**	22,340,500

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBIRC.

38 Commitments and contingent liabilities (Continued)

(c) Operating lease commitments

As at June 30, 2018 and December 31, 2017, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	June 30, 2018	December 31, 2017
Within one year (inclusive)	**222,141**	245,302
After one year but within five years (inclusive)	**765,845**	715,612
After five years	**269,397**	301,332
Total	**1,257,383**	1,262,246

(d) Capital commitments

As at June 30, 2018 and December 31, 2017, the authorised capital commitments of the Group are as follows:

	June 30, 2018	December 31, 2017
Contracted but not paid for	**359,047**	249,389
Approved but not contracted for	**17,950**	177,839
Total	**376,997**	427,228

(e) Outstanding litigations and disputes

As at June 30, 2018, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB784.33 million (December 31, 2017: RMB766.00 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

38 Commitments and contingent liabilities (Continued)

(f) Pledged assets

(i) Assets pledged as collateral

	Note	**June 30, 2018**	December 31, 2017
For repurchase agreements			
– Discounted bills		**–**	850,000
– Available-for-sale financial assets	19(d)	**–**	22,442,936
– Held-to-maturity investments	19(e)	**–**	19,096,476
– Financial investments at fair value through other comprehensive income	19(b)	**9,955,725**	905,488
– Financial investments at amortised cost	19(c)	**18,566,274**	–
Total		**28,521,999**	43,294,900

Financial investments pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(ii) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at June 30, 2018, the carrying amounts of the received pledged assets is RMB10,561.70 million (December 31, 2017: RMB13,949.80 million).

39 Involvement with unconsolidated structured entities

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

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units 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 nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognized as at June 30, 2018 and December 31, 2017:

	June 30, 2018	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	29,771,548	29,771,548
Financial investments at fair value through other comprehensive income	756,097	756,097
Financial investments at amortised cost	116,261,641	116,261,641
Total	146,789,286	146,789,286

	December 31, 2017	
	Carrying amount	Maximum exposure
Available-for-sale financial assets	49,635,986	49,635,986
Debt securities classified as receivables	98,764,236	98,764,236
Total	148,400,222	148,400,222

As at June 30, 2018 and December 31, 2017, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

39 Involvement with unconsolidated structured entities (Continued)

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

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2018 and December 31, 2017, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at June 30, 2018, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group, is RMB34,077.18 million (December 31, 2017: RMB32,604.62 million).

(c) Unconsolidated structure entities sponsored by the Group during the six months period which the Group does not consolidate and does not have an interest in as at June 30, 2017 and 2018

During the six months ended June 30, 2018, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after January 1, 2018, but matured before June 30, 2018, is RMB12,010.21 million (the six months ended June 30, 2017: RMB14,009.08 million).

40 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBIRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

40 Capital management (Continued)

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBIRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-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, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

40 Capital management (Continued)

The Group's capital adequacy ratios as at December 31, 2017 and June 30, 2018 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBIRC are as follows:

	June 30, 2018	December 31, 2017
Total core tier-one capital		
– Share capital	**20,075,000**	20,075,000
– Qualifying portion of capital reserve	**14,436,876**	13,535,519
– Surplus reserve	**1,441,525**	1,258,065
– General reserve	**6,641,622**	6,386,313
– Retained earnings	**1,522,166**	4,014,023
– Qualifying portions of non-controlling interests	**332,522**	301,440
Core tier-one capital deductions		
– Goodwill	**(468,397)**	(468,397)
– Other intangible assets other than land use rights	**(206,379)**	(207,880)
Net core tier-one capital	**43,774,935**	44,894,083
Other tier-one capital	**43,846**	39,828
Net tier-one capital	**43,818,781**	44,933,911
Tier-two capital		
– Surplus provision for loan impairment	**3,325,416**	3,551,568
– Qualifying portions of non-controlling interests	**91,509**	83,545
Net capital base	**47,235,706**	48,569,024
Total risk weighted assets	**407,579,836**	369,459,199
Core tier-one capital adequacy ratio	**10.74%**	12.15%
Tier-one capital adequacy ratio	**10.75%**	12.16%
Capital adequacy ratio	**11.59%**	13.15%

41 Segment reporting

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 financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

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

Financial markets business

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

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

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".

41 Segment reporting (Continued)

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. 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.

	Six months ended June 30, 2018				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	5,085,068	857,880	463,940	–	6,406,888
Internal net interest (expense)/ income	(1,325,687)	835,026	490,661	–	–
Net interest income	3,759,381	1,692,906	954,601	–	6,406,888
Net fee and commission income	486,511	72,545	84,049	–	643,105
Net trading gains/(losses)	8,606	–	(45,861)	–	(37,255)
Net gains arising from investment securities	5,515	–	511,610	–	517,125
Other operating income	1,566	485	531	49,441	52,023
Operating income	4,261,579	1,765,936	1,504,930	49,441	7,581,886
Operating expenses	(1,282,486)	(997,423)	(328,193)	(267,555)	(2,875,657)
Impairment losses on assets	(1,488,988)	(452,974)	(302,000)	(44,606)	(2,288,568)
Profit/(loss) before tax	1,490,105	315,539	874,737	(262,720)	2,417,661
Other segment information					
– Depreciation and amortization	223,530	77,589	84,964	2,058	388,141
– Capital expenditure	126,843	44,028	48,213	1,168	220,252

41 Segment reporting (Continued)

	June 30, 2018				
	Corporate banking	**Retail banking**	**Financial markets business**	**Others**	**Total**
Segment assets	**260,656,754**	**119,876,329**	**159,575,084**	**2,422,251**	**542,530,418**
Deferred tax assets	**–**	**–**	**–**	**2,505,881**	**2,505,881**
Total assets	**260,656,754**	**119,876,329**	**159,575,084**	**4,928,132**	**545,036,299**
Segment liabilities	**169,097,783**	**173,538,471**	**154,342,603**	**2,943,308**	**499,922,165**
Total liabilities	**169,097,783**	**173,538,471**	**154,342,603**	**2,943,308**	**499,922,165**

	Six months ended June 30, 2017				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	4,444,026	630,439	539,177	–	5,613,642
Internal net interest (expense)/ income	(1,080,708)	882,907	197,801	–	–
Net interest income	3,363,318	1,513,346	736,978	–	5,613,642
Net fee and commission income	200,541	31,646	43,987	–	276,174
Net trading losses	–	–	(72,726)	(878)	(73,604)
Net losses arising from investment securities	–	–	(1,758)	–	(1,758)
Other operating income	2,459	4,125	99	54,744	61,427
Operating income	3,566,318	1,549,117	706,580	53,866	5,875,881
Operating expenses	(883,817)	(849,906)	(120,269)	(505,228)	(2,359,220)
Impairment losses on assets	(764,798)	(323,420)	(182,636)	(7,692)	(1,278,546)
Profit/(loss) before tax	1,917,703	375,791	403,675	(459,054)	2,238,115
Other segment information					
– Depreciation and amortization	169,947	79,503	33,601	65,662	348,713
– Capital expenditure	143,922	63,148	28,399	38,852	274,321

41 Segment reporting (Continued)

	December 31, 2017				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Segment assets	238,398,082	98,362,094	180,670,467	2,513,265	519,943,908
Deferred tax assets	–	–	–	2,045,918	2,045,918
Total assets	238,398,082	98,362,094	180,670,467	4,559,183	521,989,826
Segment liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215
Total liabilities	156,448,248	155,584,258	162,615,166	1,251,543	475,899,215

42 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(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 bond investment portfolios and guarantees granted.

42 Risk management (Continued)

(a) Credit risk (Continued)

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

42 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

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

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

Credit risk management after adopting IFRS 9

After adopting IFRS 9 at January 1, 2018, the financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

42 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (continued)

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

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 assets 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.

42 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (continued)

Significant increase in credit risk (continued)

The Group uses watch lists to monitor credit risk of financial assets 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 June 30, 2018, the Group has not considered that any of its financial assets 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.

Definition of "default" and "credit-impaired assets"

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for a security because of financial difficulties of the issuer; or

– overdue more than 90 days.

42 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management after adopting IFRS 9 (continued)

Definition of "default" and "credit-impaired assets" (continued)

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

Measurement of expected credit losses ("ECL")

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

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.

42 Risk management (Continued)

(a) Credit risk (Continued)

The Group determines the ECL 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 ECL 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.

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 ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL 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.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting period.

42 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

	At June 30, 2018			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments
Balance of financial assets that are assessed for expected credit losses over the next 12 months				
– Overdue but not credit-impaired	15,834	–	–	–
– Neither overdue nor credit-impaired	204,248,981	8,978,773	10,151,719	217,991,340
Sub-total	204,264,815	8,978,773	10,151,719	217,991,340
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses				
– Overdue but not credit-impaired	3,214,740	–	–	–
– Neither overdue nor credit-impaired	2,454,248	–	–	–
Sub-total	5,668,988	–	–	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses				
– Overdue and credit-impaired	8,922,618	19,027	–	10,692,026
– Credit-impaired but not overdue	–	–	–	8,499
Sub-total	8,922,618	19,027	–	10,700,525
Less: Provision for impairment losses	(7,290,958)	(20,295)	(603)	(4,521,988)
Net value	211,565,463	8,977,505	10,151,116	224,169,877

42 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	At December 31, 2017			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments
Impaired				
Individually assessed gross amount	2,586,821	19,027	–	1,259,491
Provision for impairment losses	(1,864,974)	(19,027)	–	(236,434)
Sub-total	721,847	–	–	1,023,057
Collectively assessed gross amount	1,055,725	–	–	–
Provision for impairment losses	(831,123)	–	–	–
Sub-total	224,602	–	–	–
Overdue but not impaired				
Less than three months (inclusive)	2,486,554	–	–	–
Between three months and six months (inclusive)	1,552,578	–	–	–
Between six months and one year (inclusive)	1,715,538	–	–	–
More than one year	1,159,768	–	–	–
Gross amount	6,914,438	–	–	–
Provision for impairment losses	(1,277,246)	–	–	–
Sub-total	5,637,192	–	–	–
Neither overdue nor impaired				
Gross amount	188,345,965	10,287,106	12,988,617	226,345,302
Provision for impairment losses	(3,220,771)	–	–	(468,054)
Sub-total	185,125,194	10,287,106	12,988,617	225,877,248
Total	191,708,835	10,287,106	12,988,617	226,900,305

42 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

As at June 30, 2018, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB2,790.03 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB2,203.51 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at December 31,2017, the fair value of collaterals held against loans and advances overdue but not impaired and loans and advances impaired amounted to RMB4,570.64 million and RMB462.90 million, respectively. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at June 30, 2018 and December 31, 2017.

42 Risk management (Continued)

(a) Credit risk (Continued)

(iv) Amounts due from banks and other financial institutions

The 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 institution. Neither overdue nor credit-impaired/impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	June 30, 2018	December 31, 2017
Neither overdue nor credit-impaired/impaired		
Ratings		
– A to AAA	**14,436,360**	20,350,998
– B to BBB	**4,692,261**	2,924,725
Total	**19,128,621**	23,275,723

42 Risk management (Continued)

(a) Credit risk (Continued)

(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the reporting period are as follows:

	June 30, 2018	December 31, 2017
Neither overdue nor credit-impaired/impaired		
Ratings		
– AAA	**2,939,702**	2,687,416
– AA- to AA+	**3,333,997**	1,456,174
– A- to A+	**200,000**	–
– unrated	**68,545,730**	71,912,346
Total	**75,019,429**	76,055,936

(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, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions. The Finance Management Department is responsible for monitoring and managing the interest rate risk, the Trade Finance Department is responsible for monitoring and managing the foreign exchange risk on a daily basis. The Finance Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

42 Risk management (Continued)

(b) Market risk (Continued)

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

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

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.

Sensitivity 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 categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

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.

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 financial markets business position.

42 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk

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

The Finance Management Department is responsible for 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.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

42 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk (Continued)

Trading interest rate risk (Continued)

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

	At June 30, 2018					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	70,039,583	–	–	–	1,703,637	71,743,220
Deposits with banks and other financial institutions	5,113,378	1,425,000	–	–	–	6,538,378
Placement with banks and other financial institutions	874,799	1,564,328	–	–	–	2,439,127
Derivative financial assets	–	15,775	1,710	–	–	17,485
Financial assets held under resale agreements	10,151,116	–	–	–	–	10,151,116
Loans and advances to customers (Note (i))	169,811,289	31,548,160	9,418,146	787,868	–	211,565,463
Financial investments	41,074,250	51,055,734	90,575,995	41,463,898	23,896	224,193,773
Others	–	–	–	–	18,387,737	18,387,737
Total assets	297,064,415	85,608,997	99,995,851	42,251,766	20,115,270	545,036,299
Liabilities						
Borrowing from the Central bank	1,607,754	2,425,919	–	–	–	4,033,673
Deposits from banks and other financial institutions	43,334,860	1,230,000	–	–	–	44,564,860
Placement from banks and other financial institutions	9,018,406	2,701,140	–	–	–	11,719,546
Derivative financial liabilities	–	108,612	1,761	–	–	110,373
Financial assets sold under repurchase agreements	27,426,950	–	–	–	–	27,426,950
Deposits from customers	226,549,490	67,009,337	44,113,992	11,605	1,175,024	338,859,448
Debt securities issued	29,513,825	32,898,465	2,999,189	–	–	65,411,479
Others	–	–	–	–	7,795,836	7,795,836
Total liabilities	337,451,285	106,373,473	47,114,942	11,605	8,970,860	499,922,165
Asset-liability gap	(40,386,870)	(20,764,476)	52,880,909	42,240,161	11,144,410	45,114,134

42 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk (Continued)

Trading interest rate risk (Continued)

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

	At December 31, 2017					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	62,846,396	–	–	–	1,523,007	64,369,403
Deposits with banks and other financial institutions	6,792,950	2,130,801	–	–	–	8,923,751
Placement with banks and other financial institutions	663,355	700,000	–	–	–	1,363,355
Financial assets held under resale agreements	12,988,617	–	–	–	–	12,988,617
Loans and advances to customers (Note (i))	142,246,905	39,894,905	8,840,719	726,306	–	191,708,835
Financial investments	54,605,033	56,135,528	80,351,359	35,808,385	23,896	226,924,201
Others	–	–	–	–	15,711,664	15,711,664
Total assets	280,143,256	98,861,234	89,192,078	36,534,691	17,258,567	521,989,826
Liabilities						
Borrowing from the Central bank	688,924	633,963	–	–	–	1,322,887
Deposits from banks and other financial institutions	22,646,832	16,754,000	250,000	–	–	39,650,832
Placement from banks and other financial institutions	4,074,729	1,642,376	–	–	–	5,717,105
Financial assets sold under repurchase agreements	40,809,848	–	–	–	–	40,809,848
Deposits from customers	219,974,244	57,066,949	28,177,768	20,426	1,468,897	306,708,284
Debt securities issued	32,829,370	41,299,260	–	–	–	74,128,630
Others	–	–	–	–	7,561,629	7,561,629
Total liabilities	321,023,947	117,396,548	28,427,768	20,426	9,030,526	475,899,215
Asset-liability gap	(40,880,691)	(18,535,314)	60,764,310	36,514,265	8,228,041	46,090,611

Notes:

(i) As at June 30, 2018, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB6,924.40 million (December 31, 2017: RMB6,354.27 million).

42 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk (Continued)

Trading interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at June 30, 2018, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease RMB481.15 million (December 31, 2017: RMB409.65 million), and the Group's equity to decrease RMB342.56 million (December 31, 2017: RMB320.41 million); a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase RMB481.15 million (December 31, 2017: RMB409.65 million), and the Group's equity to increase RMB342.56 million (December 31, 2017: RMB320.41 million).

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

- Interest rate movements at the end of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

42 Risk management (Continued)

(b) Market risk (Continued)

Repricing risk (Continued)

Trading interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

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

Foreign currency risk

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

42 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

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

	At June 30, 2018				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	71,689,946	52,150	250	874	71,743,220
Deposits with banks and other financial institutions	5,434,846	897,028	177,875	28,629	6,538,378
Placement with banks and other financial institutions	1,499,570	939,557	–	–	2,439,127
Financial assets held under resale agreements	10,151,116	–	–	–	10,151,116
Loans and advances to customers	209,639,206	1,863,213	–	63,044	211,565,463
Financial investments	217,663,428	6,193,105	337,240	–	224,193,773
Derivative financial assets	17,485	–	–	–	17,485
Others	18,253,948	133,225	68	496	18,387,737
Total assets	534,349,545	10,078,278	515,433	93,043	545,036,299
Liabilities					
Borrowing from the Central bank	4,033,673	–	–	–	4,033,673
Deposits from banks and other financial institutions	42,845,943	1,697,877	35	21,005	44,564,860
Placement from banks and other financial institutions	10,087,000	1,568,347	–	64,199	11,719,546
Financial assets sold under repurchase agreements	27,426,950	–	–	–	27,426,950
Deposits from customers	338,859,448	–	–	–	338,859,448
Debt securities issued	65,411,479	–	–	–	65,411,479
Derivative financial liabilities	17,377	92,996	–	–	110,373
Others	7,560,183	199,259	29,172	7,222	7,795,836
Total liabilities	496,242,053	3,558,479	29,207	92,426	499,922,165
Asset-liability gap	38,107,492	6,519,799	486,226	617	45,114,134

42 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

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

	At December 31, 2017				
	RMB	USD *(RMB Equivalent)*	HKD *(RMB Equivalent)*	Others *(RMB Equivalent)*	Total *(RMB Equivalent)*
Assets					
Cash and deposits with the central bank	64,338,855	30,291	74	183	64,369,403
Deposits with banks and other financial institutions	4,115,562	2,807,205	1,993,530	7,454	8,923,751
Placement with banks and other financial institutions	1,200,000	163,355	–	–	1,363,355
Financial assets held under resale agreements	12,988,617	–	–	–	12,988,617
Loans and advances to customers	190,874,704	834,131	–	–	191,708,835
Financial investments	224,179,020	2,410,684	334,497	–	226,924,201
Others	15,681,638	29,769	257	–	15,711,664
Total assets	513,378,396	6,275,435	2,328,358	7,637	521,989,826
Liabilities					
Borrowing from the Central bank	1,322,887	–	–	–	1,322,887
Deposits from banks and other financial institutions	39,040,701	606,977	68	3,086	39,650,832
Placement from banks and other financial institutions	4,955,000	762,105	–	–	5,717,105
Financial assets sold under repurchase agreements	40,809,848	–	–	–	40,809,848
Deposits from customers	306,708,284	–	–	–	306,708,284
Debt securities issued	74,128,630	–	–	–	74,128,630
Others	7,341,525	8,907	208,006	3,191	7,561,629
Total liabilities	474,306,875	1,377,989	208,074	6,277	475,899,215
Asset-liability gap	39,071,521	4,897,446	2,120,284	1,360	46,090,611

42 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

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

	June 30, 2018 Increase/ (decrease)	December 31, 2017 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	**82,364**	24,644
Down 100 bps change of foreign exchange rate	**(82,364)**	(24,644)

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;

– 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.

42 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 sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

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 stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

42 Risk management (Continued)

(c) Liquidity risk

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:

	At June 30, 2018							
	Indefinite *Note (i)*	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	40,973,061	30,770,159	–	–	–	–	–	71,743,220
Deposits with banks and other financial institutions	–	2,987,417	741,851	1,384,110	1,425,000	–	–	6,538,378
Placements with banks and other financial institutions	–	–	218,327	656,472	1,564,328	–	–	2,439,127
Derivative financial assets	–	–	–	–	15,775	1,710	–	17,485
Financial assets held under resale agreements	–	–	10,151,116	–	–	–	–	10,151,116
Loans and advances to customers	6,060,808	808,605	9,104,662	16,476,018	81,025,650	37,457,295	60,632,425	211,565,463
Financial investments	6,472,095	70,000	12,457,388	22,098,663	51,055,734	90,575,995	41,463,898	224,193,773
Others	12,471,074	–	2,073,986	1,600,727	145,307	2,096,643	–	18,387,737
Total assets	65,977,038	34,636,181	34,747,330	42,215,990	135,231,794	130,131,643	102,096,323	545,036,299
Liabilities								
Borrowing from the central bank	–	40,000	487,458	1,080,296	2,425,919	–	–	4,033,673
Deposits from banks and other financial institutions	–	2,718,500	9,488,000	21,802,000	10,306,360	250,000	–	44,564,860
Placements from banks and other financial institutions	–	–	–	9,018,406	2,701,140	–	–	11,719,546
Derivative financial liabilities	–	–	–	–	108,612	1,761	–	110,373
Financial assets sold under repurchase agreements	–	–	27,426,950	–	–	–	–	27,426,950
Deposits from customers	–	191,043,027	13,744,032	19,461,235	70,114,711	44,484,838	11,605	338,859,448
Debt securities issued	–	–	11,469,814	18,044,011	32,898,465	2,999,189	–	65,411,479
Others	–	523,137	705,773	1,909,122	2,553,395	2,078,625	25,784	7,795,836
Total liabilities	–	194,324,664	63,322,027	71,315,070	121,108,602	49,814,413	37,389	499,922,165
Long/(short) position	65,977,038	(159,688,483)	(28,574,697)	(29,099,080)	14,123,192	80,317,230	102,058,934	45,114,134

42 Risk management (Continued)

(c) Liquidity risk (Continued)

	At December 31, 2017							
	Indefinite *Note (i)*	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	41,734,259	22,635,144	–	–	–	–	–	64,369,403
Deposits with banks and other financial institutions	–	1,808,587	4,554,363	430,000	2,130,801	–	–	8,923,751
Placements with banks and other financial institutions	–	–	571,876	91,479	700,000	–	–	1,363,355
Financial assets held under resale agreements	–	–	12,988,617	–	–	–	–	12,988,617
Loans and advances to customers	5,736,700	846,942	13,636,103	15,789,820	80,299,636	25,368,632	50,031,002	191,708,835
Financial investments	1,046,953	–	13,777,295	39,754,747	56,117,599	80,419,222	35,808,385	226,924,201
Others	10,149,596	–	2,327,341	1,401,129	474,613	1,358,985	–	15,711,664
Total assets	58,667,508	25,290,673	47,855,595	57,467,175	139,722,649	107,146,839	85,839,387	521,989,826
Liabilities								
Borrowing from the central bank	–	–	266,321	422,603	633,963	–	–	1,322,887
Deposits from banks and other financial institutions	–	1,450,662	6,661,170	14,535,000	16,754,000	250,000	–	39,650,832
Placements from banks and other financial institutions	–	–	–	4,074,729	1,642,376	–	–	5,717,105
Financial assets sold under repurchase agreements	–	–	40,809,848	–	–	–	–	40,809,848
Deposits from customers	–	181,298,831	11,418,203	27,839,898	57,953,158	28,177,768	20,426	306,708,284
Debt securities issued	–	–	12,228,971	20,600,399	41,299,260	–	–	74,128,630
Others	–	703,943	880,550	1,837,638	3,022,198	1,099,219	18,081	7,561,629
Total liabilities	–	183,453,436	72,265,063	69,310,267	121,304,955	29,526,987	38,507	475,899,215
Long/(short) position	58,667,508	(158,162,763)	(24,409,468)	(11,843,092)	18,417,694	77,619,852	85,800,880	46,090,611

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the credit-impaired/impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents credit-impaired/impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

42 Risk management (Continued)

(c) Liquidity risk (Continued)

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

	At June 30, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	4,033,673	4,112,175	40,033	490,459	1,087,983	2,493,700	–	–
Deposits from banks and other financial institutions	44,564,860	45,068,501	2,719,091	9,500,961	21,986,045	10,582,328	280,076	–
Placements from banks and other financial institutions	11,719,546	11,846,880	–	–	9,030,648	2,816,232	–	–
Financial assets sold under repurchase agreements	27,426,950	27,433,346	–	27,433,346	–	–	–	–
Deposits from customers	338,859,448	344,640,684	191,253,756	13,815,538	19,574,526	71,197,269	48,787,743	11,852
Debt securities issued	65,411,479	66,868,726	–	11,490,610	18,184,887	33,786,828	3,406,401	–
Other financial liabilities	3,006,053	3,006,053	164,671	268,649	496,760	1,195,109	880,848	16
Total non-derivative financial liabilities	495,022,009	502,976,365	194,177,551	62,999,563	70,360,849	122,071,466	53,355,068	11,868
Loan commitments	–	4,820,109	1,106,000	3,704,109	–	10,000	–	–

42 Risk management (Continued)

(c) Liquidity risk (Continued)

The Group's derivatives, foreign exchange forwards will be settled on a net basis. Interest rate swaps will be settled on a gross basis.

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

	At June 30, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
foreign exchange forwards	(92,996)	(92,996)	–	–	–	(92,996)	–	–
Derivatives settled on gross basis								
Interest rate swaps								
– cash outflow	(17,377)	(17,377)	–	–	–	(15,616)	(1,761)	–
– cash inflow	17,485	17,485	–	–	–	15,775	1,710	–
Total	(92,888)	(92,888)	–	–	–	(92,837)	(51)	–

	At December 31, 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	1,322,887	1,335,242	–	267,813	425,194	642,235	–	–
Deposits from banks and other financial institutions	39,650,832	40,254,793	1,451,139	6,675,032	14,660,271	17,181,815	286,536	–
Placements from banks and other financial institutions	5,717,105	5,759,545	–	–	4,078,650	1,680,895	–	–
Financial assets sold under repurchase agreements	40,809,848	40,989,547	–	40,989,547	–	–	–	–
Deposits from customers	306,708,284	309,808,229	181,325,153	11,447,897	28,111,093	58,637,389	30,265,724	20,973
Debt securities issued	74,128,630	75,598,722	–	12,259,909	20,771,667	42,567,146	–	–
Other financial liabilities	2,965,736	2,965,736	128,062	258,064	648,731	1,200,666	729,947	266
Total non-derivative financial liabilities	471,303,322	476,711,814	182,904,354	71,898,262	68,695,606	121,910,146	31,282,207	21,239
Loan commitments	–	2,710,458	1,051,790	1,623,668	–	25,000	10,000	–

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

42 Risk management (Continued)

(d) Operational risk

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

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

— A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

— A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

— An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;

— An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

— An independent risk assessment framework based on the internal audit and the compliance review.

43 Comparative figurers

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended June 30,2018

A number of amendments and new standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted. Except for the amendments to IFRS 9, Prepayment features with negative compensation, which have been adopted at the same time as IFRS 9, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of IFRS 16, Leases, which may have a significant impact on the Group's consolidated financial statements.

IFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

During the six months ended June 30, 2018, the Group continued the existing lease agreement for its office premise. These leases are currently classified as operating leases.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended June 30,2018 (Continued)

The following is an updated information about the Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by June 30, 2018:

	Properties
Within one year (inclusive)	222,141
After one year but within five years (inclusive)	765,845
After five years	269,397
Total	1,257,383

Upon the initial adoption of IFRS 16 at January 1, 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16.

(Expressed in thousands of Renminbi, unless otherwise stated)

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

1 Liquidity coverage ratio and leverage ratio

	Six months ended June 30, 2018	Average for June 30, 2018
Liquidity coverage ratio (RMB and foreign currency)	**124.61%**	157.36%

	Average for 2017	2017
Liquidity coverage ratio (RMB and foreign currency)	**217.68%**	210.77%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	June 30, 2018	December 31, 2017
Leverage ratio	**7.47%**	8.06%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Currency concentrations

	June 30, 2018			
	US Dollars (RMB equivalent)	**HK Dollars (RMB equivalent)**	**Others (RMB equivalent)**	**Total (RMB equivalent)**
Spot assets	**10,078,278**	**515,433**	**93,042**	**17,139,041**
Spot liabilities	**(3,558,479)**	**(29,207)**	**(92,425)**	**(10,153,052)**
Net position	**6,519,799**	**486,226**	**617**	**7,006,642**

	December 31, 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	6,275,435	2,328,358	7,637	8,611,430
Spot liabilities	(1,377,989)	(208,074)	(6,277)	(1,592,340)
Net position	4,897,446	2,120,284	1,360	7,019,090

The Group has no structural position at the end of reporting periods.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims

The Bank 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 amounts due from banks and other financial institutions and 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.

	June 30, 2018			
	Banks and other financial institutions	**Public sector entities**	**Non-bank private sectors**	**Total**
Asia Pacific	**2,720,951**	**–**	**4,307,180**	**7,028,131**
North America	**51,595**	**–**	**–**	**51,595**
Others	**26,941**	**–**	**–**	**26,941**
	2,799,487	**–**	**4,307,180**	**7,106,667**

	December 31, 2017			
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	3,709,490	–	661,425	4,370,915
North America	76,493	–	–	76,493
Others	6,253	–	–	6,253
	3,792,236	–	661,425	4,453,661

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances

	June 30, 2018	December 31, 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)	**2,082,449**	1,667,179
– between 6 months and 1 year (inclusive)	**2,495,450**	2,551,153
– over 1 year	**4,337,465**	3,838,799
Total	**8,915,364**	8,057,131
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	**0.95%**	0.84%
– between 6 months and 1 year (inclusive)	**1.14%**	1.28%
– over 1 year	**1.98%**	1.93%
Total	**4.07%**	4.05%

Definition of Terms

"Articles of Association"	the articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
"Board" or "Board of Directors"	the board of Directors of the Bank
"Board of Supervisors"	the board of Supervisors of the Bank
"Senior Management"	the senior management of the Bank
"Bank", "Our Bank" or "ZYBANK"	Zhongyuan Bank Co., Ltd., and except where the context indicates otherwise, all of its Subsidiaries and with respect to the period before our Bank became the holding company of its present subsidiaries, the businesses operated by its present subsidiaries or (as the case may be) their predecessors
"Corporate Governance Code"	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Directors"	directors of the Bank
"Domestic Shares"	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi
"Group"	the Bank and its subsidiaries
"H Shares"	ordinary shares of RMB1.00 each in the ordinary share capital of the Bank, which are listed on the Main Board
"HK$"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IAS"	International accounting standards and their interpretations
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange as amended, supplemented or otherwise modified from time to time

Definition of Terms

"Main Board"	the stock market operated by the Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"China" or "PRC"	the People's Republic of China, but for the purpose of this interim report only and, unless the context otherwise requires, excluding Hong Kong, Macau Special Administrative Region of China and Taiwan
"Reporting Period"	the six months ended 30 June 2018
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
"Shares"	ordinary shares of RMB1.00 each in the share capital of the Bank, including Domestic Shares and H Shares
"Shareholder(s)"	the holder(s) of the Shares of the Bank
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning ascribed to it under Section 2 of the Companies Ordinance (Chapter 622 of the Law of Hong Kong)
"Supervisors"	the supervisors of the Bank
"Consumer Finance Company"	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
"CBRC Henan Office"	China Banking Regulatory Commission Henan Office