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浙商银行股份有限公司
CHINA ZHESHANG BANK CO., LTD.

CHINA ZHESHANG BANK CO., LTD.

浙 商 銀 行 股 份 有 限 公 司 *

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

(Stock Code: 2016)

2016 INTERIM RESULTS ANNOUNCEMENT

The board of directors of China Zheshang Bank Co., Ltd. (the “**Bank**”) hereby announces the unaudited results of the Bank for the six months ended June 30, 2016. This announcement, containing the full text of the 2016 interim report of the Bank, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of interim results.

Publication of Interim Results Announcement and Interim Report

Both the Chinese and English versions of this results announcement are available on the websites of the Bank (www.czbank.com) and the Stock Exchange (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English and Chinese text, the Chinese version shall prevail.

Printed version of the 2016 interim report of the Bank will in due course be delivered to the H Share holders of the Bank and available for viewing on the websites of the Bank (www.czbank.com) and the Stock Exchange (www.hkex.com.hk).

By order of the Board
China Zheshang Bank Co., Ltd.
Shen Renkang
Chairman

Hangzhou, the PRC
August 19, 2016

As at the date of this announcement, the executive directors of the Bank are Mr. Shen Renkang, Mr. Liu Xiaochun, Ms. Zhang Luyun and Mr. Xu Renyan; the non-executive directors are Mr. Wang Mingde, Ms. Wang Yibing, Ms. Shen Xiaojun, Ms. Gao Qinhong, Mr. Hu Tiangao and Ms. Lou Ting; the independent non-executive directors are Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu.

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

Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

The 6th meeting of the fourth session of the Board of the Company, held on August 19, 2016, approved this interim report. The Company has 16 Directors, among which 13 Directors attended the meeting in person, and Mr. Xu Renyan, Ms. Lou Ting and Mr. Yuan Fang had authorized Mr. Liu Xiaochun, Ms. Gao Qinrong and Mr. Tong Benli to attend the meeting on their behalf, respectively, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 12 Supervisors of the Company attended the meeting.

Approved by 2015 annual general meeting held on June 15, 2016, the Company has declared the final dividend for 2015 of RMB1.30 per 10 shares (tax inclusive) to the shareholders of ordinary shares whose names appear on the register after the closing of trading as of June 27, 2016. The total dividend declared was RMB2.335 billion. The Company neither declares interim dividend for 2016 nor makes any transfer from reserves to share capital.

Unless otherwise illustrated in this report, the currency for amounts herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts are due to rounding.

The interim financial report for 2016 of the Company is unaudited.

Shen Renkang (Chairman of the Bank), Liu Xiaochun (President of the Bank) and Liu Long (Chief Financial Officer of the Bank) undertake that the financial report in this report is true, accurate and complete.

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

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Definitions

“Articles of Association”:	the articles of association of China Zheshang Bank Co., Ltd.
“Board” or “Board of Directors”:	the board of directors of the Company
“Board of Supervisors”:	the board of supervisors of the Company
“CBRC”:	China Banking Regulatory Commission
“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“Company Law”:	the Company Law of the People’s Republic of China
“CSRC”:	China Securities Regulatory Commission
“Director(s)”:	the director(s) of the Company
“Domestic Shares”:	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for and credited as paid in full in RMB
“H Shares”:	overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars. Such shares of the Company are listed and traded on the Hong Kong Stock Exchange
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange” or “SEHK”:	The Stock Exchange of Hong Kong Limited
“Model Code”:	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
“RMB” or “Renminbi”:	Renminbi, the lawful currency of the PRC
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Supervisor(s)”:	the supervisor(s) of the Company

Company Profile

- 1. Company name in Chinese:** 浙商银行股份有限公司(Abbreviation in Chinese: 浙商银行)
Company name in English: CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)
- 2. Legal Representative:** Shen Renkang
- 3. Registered and office address:** No. 288, Qingchun Road, Hangzhou, Zhejiang, China
Postcode: 310006
E-mail: IR@czbank.com
Website: www.czbank.com
Customer service hotline: 95527
Tel of investor relations management: 86-571-88268966
Fax: 86-571-87659826
- 4. Principal place of business in Hong Kong:** 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 5. Authorized representatives:** Xu Renyan, Liu Long
- 6. Secretary to the Board:** Liu Long

Joint company secretaries: Liu Long, Wong Yat Tung
- 7. Stock exchange where the securities are listed:** Hong Kong Stock Exchange
Stock abbreviation: CZBANK
Stock code: 2016
- 8. Share registrar:**
H Shares: Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Domestic Shares: China Securities Depository and Clearing Corporation Limited
Building A, Hengao Centre, No.17, Taipingqiao Street,
Xicheng District, Beijing

Company Profile

- 9. Legal advisors:**
As to PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
- 10. Compliance Advisor:** ABCI Capital Limited
- 11. Accounting firms engaged by the Company:**
Domestic auditor: PricewaterhouseCoopers Zhong Tian Certified Public Accountants (Special General Partnership)
Office address: 11/F, PricewaterhouseCoopers Center, No. 202 Hubin Road, Shanghai
International auditor: PricewaterhouseCoopers Certified Public Accountants
Office address: 20-24/F, Prince's Building, Central, Hong Kong
- 12. Place of maintenance of this report:** Office of the Board of the Company
Website of Hong Kong Stock Exchange for publishing this report: www.hkexnews.hk
- 13. Other information about the Company:** Financial institution license serial number: B0010H133010001
Corporate business license serial number: 330000000013295
Registration date: July 26, 2004
Tax registration certificate number: Guo Shui Zi 330000761336668
Zhe Di Shui Zi 330000761336668
Organization code: 76133666-8

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail if any ambiguities arise from the understanding of the Chinese and English texts.

Financial Summary

(The financial data and indicators set forth in this interim report are prepared in accordance with IFRSs and presented in RMB, unless otherwise specified)

Key Financial Data and Indicators

	January to June 2016	January to June 2015	Period-on-period Increase/Decrease (%)
Operating results (RMB'000)			
Operating income	15,964,375	10,533,534	51.56
Profit before income tax	6,245,984	4,408,304	41.69
Net profit attributable to shareholders of the Company	4,734,822	3,325,676	42.37

	June 30, 2016	December 31, 2015	Period-on-period Increase/Decrease (%)
Scale indicators (RMB'000)			
Total assets	1,181,634,463	1,031,650,386	14.54
Total loans and advances to customers	410,622,493	345,422,861	18.88
Total liabilities	1,118,507,879	981,993,322	13.90
Customer deposits	644,554,993	516,026,296	24.91
Shareholders' equity	63,126,584	49,657,064	27.13

	January to June 2016	January to June 2015	Period-on-period Increase/Decrease (%)
Per share (RMB)			
Basic earnings per share	0.29	0.29	Flat
Diluted earnings per share	0.29	0.29	Flat
Net assets per share at the end of the period	3.51	3.11	12.86

	January to June 2016	January to December 2015	January to June 2015	Period-on-period Increase/Decrease
Profitability indicators (%)				
Return on average total assets	0.86*	0.83	0.86*	Flat
Return on average equity	16.88*	17.03	17.13*	Decrease by 0.25 percentage point
Net interest margin	2.10*	2.31	2.45*	Decrease by 0.35 percentage point
Net interest spread	1.91*	2.12	2.24*	Decrease by 0.33 percentage point
Proportion of net non-interest income	25.07	18.08	13.57	Increase by 11.50 percentage points
Cost-to-income ratio ⁽¹⁾	25.29	27.66	24.62	Increase by 0.67 percentage point

Financial Summary

	June 30, 2016	December 31, 2015	June 30, 2015	Period-on-period Increase/Decrease
Asset quality indicators (%)				
Non-performing loan ratio ⁽²⁾	1.33	1.23	1.09	Increase by 0.10 percentage point
Allowance to non-performing loans ⁽³⁾	229.27	240.83	241.39	Decrease by 11.56 percentage points
Allowance to total loans ⁽⁴⁾	3.06	2.95	2.63	Increase by 0.11 percentage point

	June 30, 2016	December 31, 2015	June 30, 2015	Period-on-period Increase/Decrease
Capital adequacy indicators (%)				
Core tier-one capital adequacy ratio	10.16	9.35	9.42	Increase by 0.81 percentage point
Tier-one capital adequacy ratio	10.16	9.35	9.42	Increase by 0.81 percentage point
Capital adequacy ratio	11.72	11.04	11.07	Increase by 0.68 percentage point

Notes: * represents an annualized ratio.

- (1) Operating expenses (excluding business tax and surcharges) divided by operating income.
- (2) Balance of non-performing loans divided by total loans and advances to customers.
- (3) Balance of allowance for impairment losses on loans divided by balance of non-performing loans.
- (4) Balance of allowance for impairment losses on loans divided by total loans and advances to customers.

Management Discussion and Analysis

(I) Development Strategies

The vision of “two most”

Our vision is to become the most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

The term “the most competitive” means the possession of distinct competitive advantages on the ability for innovation, risk control, service provision in the market, value creation in our services provided nationwide and globally, while “most important financial platform” refers to the representative financial group in Zhejiang with comprehensive functions, leading scale, outstanding results and sound reputation.

Full-asset class operation strategy

Full-asset class operation strategy is a systematic operation strategy that covers management and coordination of front, middle and back office and enables the Company to actively adapt to the market environment of high uncertainty and rapid changes, formulate an agile operation system with a clear direction, flexible mechanism, diversified tactics and various instruments. Such strategy is comprised of three parts, namely business expansion, internal management and strategic direction:

With respect to business expansion, the Company will continuously explore source of customers in serving the whole economy and undergo changes according to the actual changes from the needs of corporate customers, personal customers, small and micro customers and inter-bank customers. The Company will also strengthen synergy of business lines and cross-selling and timely and effectively meet customers’ changing and diversified needs through product mix and product innovation.

With respect to internal management, the Company will step up construction of its institutions and channels, enhance innovation of products and business models that are market-oriented and customer-experience driven, establish credit assets, trading assets, investment assets and inter-bank assets that match market demand and customer needs, whereby the Company’s liability operation capability can be driven by its asset operation capability. Therefore, the Company can transform from an asset holding bank to an asset management and trading bank and continuously innovate full-asset and liability management system and optimize comprehensive risk management system.

Strategic direction refers to formation of differentiated competitive advantages, exploration of diversified sources of profit, effective balance of impact of the economy, market or business fluctuation on the Company’s asset size and profitability, so as to achieve a growth higher than our peers and accomplish the general objective of “two most”. Differentiated competitive advantages can be reflected in the combination performance of our business and products in different development stages and the adjustment to the importance of business according to changes of market and customer demands.

Management Discussion and Analysis

(II) Analysis of Overall Operating Performance

Rapid increase of business scale

As at the end of the reporting period, total assets of the Company amounted to RMB1,181.634 billion, representing an increase of RMB149.984 billion or 14.54% as compared to that at the beginning of this year, of which total loans and advances to customers amounted to RMB410.622 billion, representing an increase of RMB65.200 billion or 18.88% as compared to that at the beginning of this year, and total liabilities amounted to RMB1,118.508 billion, representing an increase of RMB136.515 billion or 13.90% as compared to that at the beginning of this year, of which customer deposits amounted to RMB644.555 billion, representing an increase of RMB128.529 billion or 24.91% as compared to that at the beginning of this year.

Significant improvement on economic benefits

During the reporting period, operating income of the Company amounted to RMB15.964 billion, representing an increase of RMB5.431 billion or 51.56% on a year-on-year basis, of which net non-interest income amounted to RMB4.003 billion, representing an increase of 179.93% on a year-on-year basis, and the proportion of net non-interest income increased by 11.50 percentage points on a year-on-year basis; total pre-provision profit amounted to RMB11.375 billion, representing an increase of RMB4.041 billion or 55.09% on a year-on-year basis; and net profit amounted to RMB4.735 billion, representing an increase of RMB1.409 billion or 42.37% on a year-on-year basis.

Maintaining sound asset quality

As at the end of the reporting period, the balance of non-performing loans of the Company amounted to RMB5.476 billion, representing an increase of RMB1.243 billion as compared to that at the beginning of this year; non-performing loan ratio was 1.33%, representing an increase of 0.1 percentage points as compared to that at the beginning of this year; allowance to non-performing loans at the end of the period was 229.27%, representing a decrease of 11.56 percentage points as compared to that at the beginning of this year; the allowance to total loan ratio was 3.06%, representing an increase of 0.11 percentage points as compared to that at the beginning of this year.

Increase in capital adequacy ratio

As at the end of the reporting period, capital adequacy ratio of the Company amounted to 11.72%, representing an increase of 0.68 percentage points as compared to that at the beginning of this year; tier-one capital adequacy ratio amounted to 10.16%, representing an increase of 0.81 percentage points as compared to that at the beginning of this year; and core tier-one capital adequacy ratio amounted to 10.16%.

Management Discussion and Analysis

(III) Analysis of Financial Statements

1. Analysis of income statement

In the first half of 2016, under the guidance of the vision of “two most”, the Company further promoted the full-asset class operation strategy and better responded to the economic structure adjustment and rapid change of the market. In the first half of this year, the Company achieved a net profit of RMB4.735 billion, increasing by 42.37% compared with the same period last year; the annualized average return on total assets was 0.86% and the annualized average return on equity was 16.88%. Operating income was RMB15.964 billion, increasing by 51.56%, including, among others, net interest income of RMB11.962 billion, increasing by 31.40%; net non-interest income of RMB4.003 billion, increasing by 179.93%. Operating expense was RMB4.589 billion, increasing by 43.45%; cost-income ratio fell to 25.29%. Provision for impairment loss of assets was RMB5.129 billion, increasing by 75.29%. The income tax expense was RMB1.511 billion, increasing by 39.58%.

Changes of the main items in the income statement

In thousands of RMB, except percentages

Item	January to June 2016	January to June 2015	Amount of increase or decrease	Growth rate (%)
Net interest income	11,961,836	9,103,705	2,858,131	31.40
Net non-interest income	4,002,539	1,429,829	2,572,710	179.93
Operating income	15,964,375	10,533,534	5,430,841	51.56
Less: operating expense	4,589,093	3,199,004	1,390,089	43.45
Less: impairment loss of assets	5,129,298	2,926,226	2,203,072	75.29
Profit before tax	6,245,984	4,408,304	1,837,680	41.69
Less: income tax expenses	1,511,162	1,082,628	428,534	39.58
Net profit attributable to the shareholders of the Company	4,734,822	3,325,676	1,409,146	42.37

(1) Net interest income

In the first half of 2016, net interest income was RMB11.962 billion, representing an increase of RMB2.858 billion or 31.40% as compared to the same period of last year, accounting for 74.93% of operating income. Interest income was RMB26.663 billion, representing an increase of RMB5.609 billion or 26.64%; and interest expense was RMB14.702 billion, representing an increase of RMB2.751 billion or 23.02%. Net interest spread and net interest margin were 1.91% and 2.10%, respectively, representing a decrease of 33 bps and 35 bps as compared to the same period of last year, respectively.

Management Discussion and Analysis

Average yields on interest-earning assets and average interest rate of interest-bearing liabilities

In thousands of RMB, except percentages

Item	January to June 2016			January to June 2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	411,433,408	10,223,271	5.00	282,165,709	9,006,779	6.44
Financial investments ⁽¹⁾	565,335,341	14,363,494	5.11	300,251,343	8,703,588	5.85
Due from banks and other financial institutions ⁽²⁾	67,641,267	1,105,632	3.29	87,064,505	2,640,925	6.12
Balances with central bank ⁽³⁾	89,373,626	686,631	1.54	73,277,506	560,144	1.54
Financial assets at fair value through profit or loss	13,440,226	284,441	4.26	5,896,079	142,977	4.89
Total interest-earning assets	1,147,223,868	26,663,469	4.67	748,655,142	21,054,413	5.67

Item	January to June 2016			January to June 2015		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	572,420,385	6,197,698	2.18	399,701,448	5,113,709	2.58
Due to banks and other financial institutions ⁽⁴⁾	406,556,380	6,782,027	3.35	242,789,473	5,375,461	4.46
Debt securities issued ⁽⁵⁾	89,609,952	1,721,908	3.86	60,035,925	1,461,538	4.91
Total interest-bearing liabilities	1,068,586,717	14,701,633	2.77	702,526,846	11,950,708	3.43
Net interest income	11,961,836			9,103,705		
Net interest spread (%)	1.91			2.24		
Net interest margin (%)	2.10			2.45		

Notes:

- (1) Financial investments include available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.
- (2) Due from banks and other financial institutions include financial assets purchased under resale agreements.
- (3) Balances with central bank include mandatory reserve of deposits, surplus reserve of deposits and foreign exchange reserve of deposits.
- (4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.
- (5) Debt securities issued include issued interbank certificates of deposits, financial bond and subordinated bond.

Management Discussion and Analysis

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between January to June 2016 and January to June 2015		
	Factors for increase (decrease)		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	4,154,564	(2,938,072)	1,216,492
Financial investments	7,723,953	(2,064,047)	5,659,906
Due from banks and other financial institutions	(586,102)	(949,191)	(1,535,293)
Balances with central bank	124,943	1,544	126,487
Financial assets at fair value through profit or loss	183,730	(42,266)	141,464
Changes in interest income	11,601,088	(5,992,032)	5,609,056
Interest-bearing liabilities			
Customer deposits	2,226,902	(1,142,913)	1,083,989
Due to banks and other financial institutions	3,644,653	(2,238,087)	1,406,566
Debt securities issued	724,731	(464,361)	260,370
Changes in interest expense	6,596,286	(3,845,361)	2,750,925
Changes in net interest income	5,004,802	(2,146,671)	2,858,131

Notes:

- (1) Change in volume represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.
- (2) Change in interest rate represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.
- (3) Net increase or decrease represents interest income (expense) for the year minus interest income (expense) for the previous year.

Management Discussion and Analysis

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB10.223 billion, representing an increase of RMB1.216 billion or 13.51% as compared to the same period of last year, mainly due to an increase of RMB129.268 billion in average balance of loans and advances to customers. The decline in the average loan yield was mainly due to the lower interest rates of new loans and repriced existing loans as compared to the same period of last year arising from multiple RMB benchmark loan interest rate cut by the People's Bank of China in 2015.

Analysis of the average yield on loans and advances to customers

In thousands of RMB, except percentages

Item	January to June 2016			January to June 2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	345,106,403	8,112,102	4.73	228,059,534	7,087,610	6.27
Personal loans and advances	66,327,005	2,111,169	6.40	54,106,175	1,919,169	7.15
Total loans and advances to customers	411,433,408	10,223,271	5.00	282,165,709	9,006,779	6.44

Note:

(1) including discounted bills.

Interest income from financial investments

Interest income from financial investments was RMB14.363 billion, representing an increase of RMB5.660 billion or 65.03% as compared to the same period of last year, mainly because we capitalized on the market interest rate trend change, optimized our assets structure in accordance with our demand for assets management and moderately increased our bonds and interbank investments, and increased asset management plans and trust plans sponsored by other financial institutions.

Interest income from banks and other financial institutions

Interest income from banks and other financial institutions was RMB1.106 billion, representing a decrease of RMB1.535 billion or 58.13% as compared to the same period of last year, primarily because the interest rates and the scale of the amounts due from banks and other financial institutions decreased.

Management Discussion and Analysis

Interest income from balances with central bank

Interest income from balances with central bank amounted to RMB687 million, representing an increase of RMB126 million or 22.58% as compared to the same period of last year, primarily due to the increase in customer deposits which led to an increase in the mandatory reserve deposits.

Interest income from financial assets at fair value through profit or loss

Interest income from financial assets at fair value through profit or loss amounted to RMB284 million, representing an increase of RMB141 million or 98.94% as compared to the same period of last year, primarily due to the increased average balance of financial assets at fair value through profit or loss.

(3) Interest expense

Interest expense on deposits

Interest expense on deposits amounted to RMB6.198 billion, representing an increase of RMB1.084 billion or 21.20% as compared to the same period of last year, accounting for 42.16% of the total interest expenses. Such increase was primarily due to the increase of RMB172.719 billion in the average balance of deposits.

Interest expense on customer deposits

In thousands of RMB, except percentages

Item	January to June 2016			January to June 2015		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	380,255,517	5,429,413	2.87	259,917,441	4,393,701	3.41
Demand	172,433,607	567,916	0.66	118,918,667	437,819	0.74
Subtotal	552,689,124	5,997,329	2.18	378,836,108	4,831,520	2.57
Personal deposits						
Time	15,161,955	192,315	2.55	17,067,801	274,245	3.24
Demand	4,569,306	8,054	0.35	3,797,539	7,944	0.42
Subtotal	19,731,261	200,369	2.04	20,865,340	282,189	2.73
Total	572,420,385	6,197,698	2.18	399,701,448	5,113,709	2.58

Note:

(1) Other deposits include remittance payables, temporary deposits, outward remittance and structured deposits, etc.

Management Discussion and Analysis

Interest expense on amounts due to banks and other financial institutions

Interest expense on amounts due to banks and other financial institutions amounted to RMB6.782 billion, representing an increase of RMB1.407 billion or 26.17% as compared to the same period of last year, primarily due to the increase of RMB163.767 billion in average balance.

Debt securities issued

Interest expense on debt securities issued amounted to RMB1.722 billion, representing an increase of RMB260 million or 17.81% as compared to the same period of last year, primarily due to an increase in the issuance of interbank certificates of deposits and bonds including financial bonds for small and micro enterprises.

(4) Net non-interest income

Net non-interest income in the first half of 2016 amounted to RMB4.003 billion, representing an increase of RMB2.573 billion or 179.93% on a year-on-year basis. Specifically, the net fee and commission income was RMB3.207 billion, representing an increase of 123.24%, while other net non-interest income was RMB0.796 billion.

Net fee and commission income

In thousands of RMB, except percentages

Item	January to June 2016	January to June 2015	Amount of increase or decrease	Growth rate (%)
Wealth management business	2,260,518	348,845	1,911,673	548.00
Credit commitment	283,331	246,044	37,287	15.15
Underwriting service	249,393	151,452	97,941	64.67
Agency service	211,410	566,572	(355,162)	(62.69)
Custodian business	71,391	66,366	5,025	7.57
Settlement business	62,153	33,810	28,343	83.83
Others	158,808	67,760	91,048	134.37
Fee and commission income	3,297,004	1,480,849	1,816,155	122.64
Less: Fee and commission expense	90,351	44,420	45,931	103.40
Net fee and commission income	3,206,653	1,436,429	1,770,224	123.24

Management Discussion and Analysis

Fee income from wealth management business was RMB2.261 billion, representing an increase of RMB1.912 billion or 548.00% as compared to the same period of last year, primarily due to the increased scale of wealth management assets.

Income from credit commitment business was RMB283 million, representing an increase of RMB37 million or 15.15% as compared to the same period of last year, primarily due to the increased fee income of our off-balance sheet business.

Fee income from underwriting service was RMB249 million, representing an increase of RMB98 million or 64.67% as compared to the same period of last year, primarily due to the increased scale of the bond underwriting service.

Fee income from agency service was RMB211 million, representing a decrease of RMB355 million as compared to the same period of last year, primarily because the Company proactively adjusted our business mix according to the changing market environment.

Fee income from custodian service was RMB71 million, representing an increase of RMB5 million or 7.57% as compared to the same period of last year, primarily due to the increased scale of the custodian service.

Fee income from settlement business was RMB62 million, representing an increase of RMB28 million or 83.83% as compared to the same period of last year, primarily due to the growth of our settlement and clearing business.

Other net non-interest income

In thousands of RMB, except percentages

Item	January to June 2016	January to June 2015	Amount of increase or decrease	Growth rate (%)
Net trading gains/(losses)				
– Held-for-trading financial assets	(66,925)	47,198	(114,123)	(241.80)
– Derivative financial instruments	102,100	(204,389)	306,489	–
– Exchange gains	157,275	(89,312)	246,587	–
Net gains/(losses) on financial investments	584,230	224,850	359,380	159.83
Other operating income	19,206	15,053	4,153	27.59
Total	795,886	(6,600)	802,486	–

Other net non-interest income was RMB796 million, primarily due to gains on disposal of available-for-sale financial instruments, fair value changes of derivative financial instruments and the increase of exchange gains or losses.

Management Discussion and Analysis

(5) Operating expenses

Operating expenses

In thousands of RMB, except percentages

Item	January to June 2016	January to June 2015	Amount of increase or decrease	Growth rate (%)
Staff costs	2,819,088	1,571,720	1,247,368	79.36
General and administrative expenses	885,979	737,781	148,198	20.09
Business tax and surcharges	552,117	605,827	(53,710)	(8.87)
Operating rental expenses	200,593	164,294	36,299	22.09
Depreciation and amortization	113,885	101,951	11,934	11.71
Others	17,431	17,431	–	–
Total	4,589,093	3,199,004	1,390,089	43.45

Operating expenses amounted to RMB4.589 billion, representing an increase of 43.45%, primarily due to our business expansion and the increased number of outlets and employees.

(6) Impairment losses on assets

Impairment losses on assets

In thousands of RMB, except percentages

Item	January to June 2016	January to June 2015	Amount of increase or decrease	Growth rate (%)
Loans and advances to customers				
– Collectively assessed	2,132,032	1,648,928	483,104	29.30
– Individually assessed	1,534,941	890,141	644,800	72.44
Debt instruments classified as receivables	1,462,387	382,808	1,079,579	282.02
Others	(62)	4,349	(4,411)	(101.43)
Total	5,129,298	2,926,226	2,203,072	75.29

The impairment losses on assets were RMB5.129 billion, representing an increase of 75.29%, primarily because (1) our loan balances continued to increase; (2) considering a number of factors including the slowdown of domestic economic growth, we prudently increased the provision along with the increase in our non-performing loans to further enhance our risk resistance capability; (3) we disposed of non-performing loans in a timely and efficient manner, and the amount of the non-performing loans that were written off and transferred out increased accordingly; and (4) we increased the provision for the impairment losses on debt instruments classified as receivables.

Management Discussion and Analysis

(7) Income tax expenses

The income tax expenses were RMB1.511 billion, representing a year-on-year increase of RMB429 million or 39.58%, and the effective tax rate was 24.19%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see "Notes to the Financial Statements – 12 Income Tax Expense".

(8) Segment information

Segment operating results by business line

In thousands of RMB, except percentages

Item	January to June 2016		January to June 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	7,793,429	48.82	6,419,555	60.94
Retail banking	1,335,028	8.36	1,038,478	9.86
Treasury business	6,818,357	42.71	3,061,338	29.06
Others	17,561	0.11	14,163	0.13
Total	15,964,375	100.00	10,533,534	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	January to June 2016		January to June 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Eastern China	11,007,636	68.95	6,660,102	63.23
Northern China	2,325,562	14.57	1,973,291	18.73
Southern China	699,398	4.38	238,266	2.26
Western China	1,931,779	12.10	1,661,875	15.78
Total	15,964,375	100.00	10,533,534	100.00

Management Discussion and Analysis

2. Balance Sheet Analysis

In the first half of 2016, under the “new normal” economy, the Bank actively complied with rapidly changing market needs, strengthened our capability to boost capital, deeply promoted our full-asset class operation strategy, actively adjusted our business structure, increased the allocation for strategic customers and strategic assets, and optimized and adjusted the regional development layout. Our operating capacity was further improved, structure of assets and liabilities was continuously optimized, liquidity and market risk management were further strengthened, and resource allocation efficiency of assets and liabilities was steadily improved.

(1) Assets

At the end of June 2016, total assets amounted to RMB1,181.634 billion, representing an increase of RMB149.984 billion or 14.54% as compared to that at the end of last year, including an increase in total loans and advances to customers of RMB65.2 billion or 18.88% and an increase in investments of RMB100.465 billion or 19.29%. In terms of the structure, net loans and advances accounted for 33.69% of total assets, investments accounted for 52.58%, and cash and balances with central bank accounted for 8.74%.

Assets utilization

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	410,622,493	–	345,422,861	–
Less: allowance for impairment				
losses on loans	(12,554,964)	–	(10,193,921)	–
Net loans and advances	398,067,529	33.69	335,228,940	32.49
Investments ⁽¹⁾	621,313,339	52.58	520,848,463	50.49
Cash and balances with central bank	103,270,087	8.74	87,649,741	8.50
Precious metal	–	–	1,848	0.00
Due from banks and other financial				
institutions	45,978,813	3.89	76,607,447	7.42
Others	13,004,695	1.10	11,313,947	1.10
Total assets	1,181,634,463	100.00	1,031,650,386	100.00

Note:

- (1) It includes financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

Management Discussion and Analysis

Loans

In the first half of 2016, the Company, according to changes in the macroeconomic environment and financial supervision requirements and by combining the optimization of credit increment and stock structure adjustment, supported the development of real economy, continued to deepen financial services to small and micro enterprises, increased efforts on innovation, and attached importance to credit structure adjustment and risk prevention and control simultaneously. As a result, loans increased steadily and evenly, with a reasonable investment direction and structure. At the end of June 2016, all the loans amounted to RMB410.622 billion, representing an increase of RMB65.200 billion or 18.88% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	292,583,089	71.25	242,484,549	70.20
Discounted bills	45,415,455	11.06	39,827,199	11.53
Personal loans	72,623,949	17.69	63,111,113	18.27
Total	410,622,493	100.00	345,422,861	100.00

Corporate loans

Driven by the full-asset class operation strategy in a comprehensive manner, the Company can meet customers' financing needs via diversified products, and promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As of the end of June 2016, total corporate loans amounted to RMB292.583 billion, representing an increase of 20.66% as compared to that at the end of last year.

Discounted bills

The Company flexibly regulated and controlled its discounted bills business of low risk and low consumption of capital according to the progress of loan extension, and took various measures including optimization of structure and acceleration of turnover to improve comprehensive returns on bill assets. As of the end of June 2016, total discounted bills amounted to RMB45.415 billion, representing an increase of 14.03% as compared to that at the end of last year.

Personal loans

The Company optimized asset structure and expanded residential mortgage loans, personal business loans and credit card loans. As of the end of June 2016, total personal loans amounted to RMB72.624 billion, representing an increase of 15.07% as compared to that at the end of last year.

Management Discussion and Analysis

Investments

In the first half of 2016, the Company accurately seized favorable opportunities in the financial market, flexibly arranged progress and key points in investments, optimized investment portfolio and structure and, on the basis of ensuring liquidity and risk control, moderately increased our investments and constantly improved profitability level of investment portfolios. At the end of June 2016, total investments amounted to RMB621.313 billion, representing an increase of 19.29% as compared to that at the end of last year.

Investment composition by purpose of holding

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	13,890,252	2.24	10,795,291	2.07
Available-for-sale financial assets	60,298,720	9.71	49,117,403	9.43
Held-to-maturity investments	37,252,071	6.00	29,042,163	5.58
Debt instruments classified as receivables	509,872,296	82.06	431,893,606	82.92
Total	621,313,339	100.00	520,848,463	100.00

As of the end of June 2016, financial assets at fair value through profit or loss of the Company amounted to RMB13.890 billion, representing an increase of 28.67%; available-for-sale financial assets amounted to RMB60.299 billion, representing an increase of 22.76%; held-to-maturity investments amounted to RMB37.252 billion, representing an increase of 28.27%; and debt instruments classified as receivables amounted to RMB509.872 billion, representing an increase of 18.06%.

Management Discussion and Analysis

(2) Liabilities

At the end of June 2016, total liabilities of the Company amounted to RMB1,118.508 billion, representing an increase of RMB136.515 billion or 13.90% as compared to that at the end of last year.

Liabilities

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	644,554,993	57.63	516,026,296	52.55
Due to banks and other financial institutions	334,622,162	29.92	354,657,357	36.12
Financial liabilities at fair value				
through profit or loss	12,136,371	1.09	500,020	0.05
Debt securities issued	98,561,446	8.81	89,936,036	9.16
Others	28,632,907	2.56	20,873,613	2.13
Total liabilities	1,118,507,879	100.00	981,993,322	100.00

Customer deposit

The Company attached importance to deposit organization and management, actively responded to the further advancement of liberalization of interest rates, increasingly fierce competition among peers, rapid development of Internet financial services and other external situations, took full advantage of the comprehensive advantages of financial services, improved the differentiated pricing mechanism for deposit interest rates, raised the debt stability, strengthened the management of financing channels, improved the diversification of financing sources and further optimized financing structures.

Management Discussion and Analysis

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	241,366,700	37.45	179,985,599	34.88
Time	373,324,068	57.92	310,115,626	60.10
Sub-total	614,690,768	95.37	490,101,225	94.98
Individual deposits				
Demand	6,755,983	1.05	6,381,855	1.24
Time	17,211,885	2.67	15,298,848	2.96
Sub-total	23,967,868	3.72	21,680,703	4.20
Other deposits	5,896,357	0.91	4,244,368	0.82
Total	644,554,993	100.00	516,026,296	100.00

At the end of June 2016, balance of customer deposits amounted to RMB644.555 billion, representing an increase of RMB128.529 billion or 24.91% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by 124.590 billion or 25.42%; and individual deposits increased by RMB2.287 billion or 10.55%. With respect to term structures, time deposits increased by RMB65.121 billion or 20.01%; and demand deposits increased by RMB61.755 billion or 33.14%.

(3) Shareholder's equity

At the end of June 2016, the shareholder's equity amounted to RMB63.127 billion in total, representing an increase of RMB13.470 billion or 27.13% as compared to that at the end of last year. Please see "Financial Statements – Condensed Statements of Changes in Equity".

3. Analysis on the statements of cash flows

The net cash inflow from operating activities was RMB78.467 billion. Among others, the net cash outflow of operating assets decreased by RMB13.469 billion on a year-on-year basis, the net cash inflow of operating liabilities decreased by RMB56.616 billion, primarily due to the decrease in due to banks and other financial institutions.

The net cash outflow from investing activities was RMB84.414 billion. Among others, RMB435.969 billion of cash flowed in, representing an increase of RMB213.888 billion on a year-on-year basis; RMB520.382 billion of cash flowed out, representing an increase of RMB140.865 billion on a year-on-year basis. The increase in net cash outflow from investing activities was primarily due to the significant increase in financial investments.

The net cash inflow from financing activities was RMB18.552 billion. Among others, RMB97.658 billion of cash flowed in, primarily due to the debt securities issued and interbank certificates of deposit as well the proceeds from IPO on Hong Kong Stock Exchange in March 2016; RMB79.106 billion of cash flowed out, primarily due to the repayment of debt.

Management Discussion and Analysis

(IV) Loan Quality Analysis

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	396,917,968	96.66	334,753,545	96.91
Special mention	8,228,463	2.00	6,436,407	1.86
Non-performing	5,476,062	1.33	4,232,909	1.23
Substandard	2,529,811	0.62	2,076,657	0.60
Doubtful	2,631,674	0.64	1,903,192	0.55
Loss	314,577	0.08	253,060	0.07
Total	410,622,493	100.00	345,422,861	100.00

The loan quality was kept at an excellent level, but due to the slowdown of the PRC economic growth and a deterioration of the repayment ability of certain clients, our Company saw a certain increase in loans classified as non-performing and special mention. At the end of June 2016, according to the five-category classification, the normal loans amounted to RMB396.918 billion, representing an increase of RMB62.164 billion as compared to that at the end of last year, accounting for 96.66% of all the loans. Loans classified as special mention were RMB8.228 billion, representing an increase of RMB1.792 billion, accounting for 2%. The non-performing loans were RMB5.476 billion, representing an increase of RMB1.243 billion as compared to that at the end of last year with a non-performing loan ratio of 1.33%, representing an increase of 0.1 percentage point as compared to that at the end of last year.

Management Discussion and Analysis

2. Distribution of loans and non-performing loans by business type

In thousands of RMB, except percentages

Item	June 30, 2016				December 31, 2015			
	Loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
Corporate loans	292,583,089	71.25	4,585,800	1.57	242,484,549	70.2	3,724,275	1.54
Personal loans	72,623,949	17.69	795,262	1.10	63,111,113	18.27	508,634	0.81
Discounted bills	45,415,455	11.06	95,000	0.21	39,827,199	11.53	–	–
Total	410,622,493	100.00	5,476,062	1.33	345,422,861	100.00	4,232,909	1.23

Our non-performing loans amounted to RMB4.586 billion, representing an increase of RMB862 million as compared to that at the end of last year, with a non-performing loan ratio of 1.57%, representing an increase of 0.03 percentage points as compared to that at the end of last year, primarily due to the deterioration of the debt repayment capability of certain clients resulting from the slowdown of economic growth and structural adjustments. The personal non-performing loans were RMB795 million, representing an increase of RMB287 million as compared to that at the end of last year, with a non-performing loan ratio of 1.10%, primarily due to the deterioration of loan repayment capability of certain personal business loan clients caused by the macro-economic environment.

Management Discussion and Analysis

3. Distribution of loans and non-performing loans by industry

In thousands RMB, except percentages

Item	June 30, 2016				December 31, 2015			
	Loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
For Corporate	292,583,089	71.25	4,585,800	1.57	242,484,549	70.2	3,724,275	1.54
Manufacturing	59,516,487	14.49	2,664,272	4.48	50,795,800	14.71	2,046,700	4.03
Wholesale and retail trade	52,890,851	12.88	1,044,149	1.97	36,978,096	10.71	890,671	2.41
Leasing and commercial services	49,974,779	12.17	22,617	0.05	37,390,404	10.83	39,317	0.11
Real estate	43,580,067	10.61	380,164	0.87	39,878,330	11.55	278,309	0.70
Construction	24,118,198	5.87	253,389	1.05	21,415,271	6.20	329,109	1.54
Administration of water conservancy, environment and public facilities	21,727,853	5.29	–	–	21,764,906	6.30	–	–
Transportation, storage and postal service	7,415,965	1.81	47,196	0.64	6,540,180	1.89	4,696	0.07
Finance	6,113,035	1.49	–	–	5,931,548	1.72	–	–
Electricity, heat, gas and water production and supply	6,066,505	1.48	5,315	0.09	3,774,675	1.09	1,573	0.04
Mining	4,672,682	1.14	33,794	0.72	3,985,721	1.15	63,231	1.59
Accommodation and catering	3,296,989	0.80	74,397	2.26	3,856,737	1.12	32,402	0.84
Others ⁽¹⁾	13,209,678	3.22	60,507	0.46	10,172,881	2.95	38,268	0.38
Personal loans	72,623,949	17.69	795,262	1.10	63,111,113	18.27	508,634	0.81
Discounted bills	45,415,455	11.06	95,000	0.21	39,827,199	11.53	–	–
Total	410,622,493	100.00	5,476,062	1.33	345,422,861	100.00	4,232,909	1.23

Note:

- (1) Others include various industries such as public administration, social security and social organization; culture, sports and entertainment; information transmission, software and information technology service; agriculture, forestry, animal husbandry and fishery; household services, repair and other services; scientific research and technology services; education, sanitation and social work.

In the first half of 2016, our Company actively supported the development of the real economy and the national economic restructuring, with our loan segment structure further optimized. Newly-added non-performing loans in our Company mainly concentrated on manufacturing, wholesale and retail trade.

Management Discussion and Analysis

4. Distribution of loans and non-performing loans by geographic regions

In thousands of RMB, except percentages

Item	June 30, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Eastern China	225,732,592	54.97	3,806,951	1.69	200,043,980	57.91	3,139,352	1.57
Northern China	81,179,174	19.77	826,894	1.02	65,892,661	19.08	489,694	0.74
Western China	76,834,107	18.71	739,765	0.96	54,167,679	15.68	557,552	1.03
Southern China	26,876,620	6.55	102,451	0.38	25,318,541	7.33	46,311	0.18
Total	410,622,493	100.00	5,476,062	1.33	345,422,861	100.00	4,232,909	1.23

Our Company has been continuously optimizing the regional distribution of loans, actively protecting ourselves from regional risks, and accelerating institutional layout to actively support the developmental demand of the regions where our new institutions are established. As at the end of the reporting period, our non-performing loans were mainly from Eastern China.

5. Distribution of loans and non-performing loans by security type

In thousands of RMB, except percentages

Item	June 30, 2016				December 31, 2015			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Collateralized loans	161,051,322	39.22	2,751,482	1.71	149,906,362	43.4	2,225,853	1.48
Pledged loans	55,380,900	13.49	63,298	0.11	40,865,811	11.83	42,791	0.10
Guaranteed loans	108,728,688	26.48	2,460,842	2.26	90,575,061	26.22	1,872,904	2.07
Unsecured loans	40,046,128	9.75	105,440	0.26	24,248,428	7.02	91,361	0.38
Discounted bills	45,415,455	11.06	95,000	0.21	39,827,199	11.53	–	–
Total	410,622,493	100.00	5,476,062	1.33	345,422,861	100.00	4,232,909	1.23

As of the end of the reporting period, the collateralized loans amounted to RMB161.051 billion, representing an increase of RMB11.145 billion or 7.43% as compared to that at the end of last year; the pledged loans amounted to RMB55.381 billion, representing an increase of RMB14.515 billion or 35.52% as compared to that at the end of last year; the unsecured loans amounted to RMB40.046 billion, representing an increase of RMB15.798 billion or 65.15% as compared to that at the end of last year.

Management Discussion and Analysis

6. Ten largest borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Percentages of total loans	
		Amount	(%)
A	Wholesale and retail trade	2,179,505	0.53
B	Wholesale and retail trade	2,078,210	0.51
C	Financing	1,750,000	0.43
D	Construction	1,730,000	0.42
E	Manufacturing	1,728,012	0.42
F	Leasing and commercial services	1,500,000	0.37
G	Wholesale and retail trade	1,368,407	0.33
H	Leasing and commercial services	1,100,000	0.27
I	Real estate	1,100,000	0.27
J	Wholesale and retail trade	1,097,790	0.27
Total		15,631,924	3.81

As of the end of the reporting period, the balance of loans to our largest single borrower was RMB2.180 billion, representing 2.98% of the Company's net capital. The total loans to our top ten single borrowers amounted to RMB15.632 billion, representing 21.35% of the net capital and 3.81% of the total loans of the Company.

7. Overdue loans

In thousands of RMB, except percentages

Overdue period	June 30, 2016		December 31, 2015	
	Amount	Percentages of total loans (%)	Amount	Percentages of total loans (%)
Overdue by 1 to 90 days	1,800,005	0.44	2,574,292	0.75
Overdue by 90 days to one year	3,592,322	0.87	2,675,510	0.77
Overdue by one year to three years	1,334,356	0.32	1,047,723	0.3
Overdue by more than three years	108,498	0.03	14,374	0
Total	6,835,181	1.66	6,311,899	1.83

The balance of overdue loans amounted to RMB6.835 billion, representing an increase of RMB0.523 billion as compared to that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB5.035 billion, representing an increase of RMB1.298 billion as compared to that at the end of last year. Our Company adopted prudent classification criteria in respect of overdue loans. At the end of June 2016, the ratio of balance of non-performing loans to balance of loans overdue by more than 90 days was 1.09.

Management Discussion and Analysis

8. Loans renegotiated

Loans and advances renegotiated amounted to RMB307 million, representing an increase of RMB229 million as compared to that at the end of last year. Specifically, loans and advances renegotiated overdue by more than three months were RMB56 million, representing an increase of RMB22 million as compared to that at the end of last year.

9. Movements in allowances for impairment losses on loans

In thousands of RMB

Item	Collectively assessed	Individually assessed	Total
Balance at the beginning of the period	8,340,569	1,853,352	10,193,921
Provision for the period	2,132,032	1,534,941	3,666,973
Unwinding of discount on allowance	(34,309)	(14,146)	(48,455)
Write-offs for the period	(345,210)	(142,077)	(487,287)
Transfer out for the period	(178,762)	(644,485)	(823,247)
Recoveries	24,711	25,540	50,251
Exchange differences	2,808	—	2,808
Balance at the end of the period	9,941,839	2,613,125	12,554,964

Management Discussion and Analysis

(V) Capital Management

In the first half of 2016, the Company maintained a solid growth in profits and the Company replenished core tier-one capital of RMB11.42 billion through the listing on the Hong Kong stock market, which effectively enhanced the capital quality and capital strength. As of June 30, 2016, net capital base of the Company amounted to RMB73.228 billion, net tier-one capital amounted to RMB63.485 billion and net tier-two capital amounted to RMB9.743 billion.

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Company's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

In the first half of 2016, the Company replenished and strengthened the capital constraint mechanism by properly utilizing the proceeds from listing, improved the risk-weighted asset allocation efficiency, as a result of which, capital adequacy ratio was improved. As of June 30, 2016, capital adequacy ratio of the Company was 11.72%, tier-one capital adequacy ratio was 10.16%, core tier-one capital adequacy ratio was 10.16%, and leverage ratio was 4.60%, all of which met regulatory requirements.

Management Discussion and Analysis

Capital Adequacy Ratio

In thousands of RMB, except percentages

Item	June 30, 2016	December 31, 2015
Core tier-one capital	63,641,457	50,409,543
Paid-in capital	17,959,697	14,509,697
Part of capital reserves that can be included	20,642,023	13,408,971
Surplus reserves	2,775,091	2,070,023
General risk reserves	13,242,456	8,241,258
Undistributed profits	9,022,190	12,179,595
Core tier-one capital deductible items	156,883	160,826
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	156,883	160,826
Net core tier-one capital	63,484,574	50,248,717
Other tier-one capital	–	–
Net tier-one capital	63,484,574	50,248,717
Tier-two capital	9,743,272	9,066,437
Tier-two capital instruments and premium that can be included	2,670,000	3,115,000
Excessive allowance for loan losses	7,073,272	5,951,437
Tier-two capital deductible items	–	–
Net capital base	73,227,847	59,315,154
Risk-weighted assets	624,884,874	537,252,918
Core tier-one capital adequacy ratio (%)	10.16	9.35
Tier-one capital adequacy ratio (%)	10.16	9.35
Capital adequacy ratio (%)	11.72	11.04

Note: Capital Adequacy Ratio was calculated under the related provisions of the Administrative Measures for the Capital of Commercial Banks (Trial) issued by the CBRC on June 7, 2012, and credit risks were measured by using weight method, market risks were measured by using standardized approach, and operational risks were measured by using the basic indicator approach.

Management Discussion and Analysis

Leverage Ratio

In thousands of RMB, except percentages

Item	June 30, 2016	December 31, 2015
Tier-one capital	63,641,457	50,409,543
Tier-one capital deductible items	156,883	160,826
Net tier-one capital	63,484,574	50,248,717
Adjusted asset balance inside the balance sheet	1,177,519,190	982,553,658
Asset balance of derivative products	2,663,010	1,382,465
Asset balance of securities financing transactions	3,011,236	48,009,930
Adjusted asset balance outside the balance sheet	197,025,462	198,472,619
Adjusted asset balance inside and outside the balance sheet	1,380,218,898	1,230,418,671
Leverage ratio (%)	4.60	4.08

Note: Calculated under the related provisions of Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) issued by the CBRC in 2015.

Management Discussion and Analysis

(VI) Risk Management

1. Comprehensive risk management system

We have adopted a positive and solid risk management strategy, which focuses on the compatibility between our risk management and business operations and the effective and strategic risk management. We have established a comprehensive risk management system which is in line with the Company's full-asset class operation strategy.

During the reporting period, the Company further advances the improvement of our comprehensive risk management system. On a basis of remaining relatively independent and effectively check and balance, we strengthen the integration and highly link between risk management and business operation, adhere to relative independence, professional management, effectiveness, quick response and gradually form a comprehensive risk management system which is beneficial for operation, risk management and innovation.

The Board is the highest decision-making body for the Company's risk management, and the president of our head office, as authorized by the Board, manages the risks across the Bank and makes decisions on risk management-related matters. The senior management has established special committees including the risk management committee, asset and liability management committee, investment and transaction review committee, credit review committee and asset risk classification review committee. The risk management committee is mainly responsible for organizing, coordinating and managing various risks, including credit risk, market risk, liquidity risk, operational risk, compliance risk, reputational risk and strategic risk.

The risk management department at our head office is the general control department for comprehensive risk management and the lead executive department for credit risk management; the financial market risk management department at our head office is the leading executive department for market risk (excluding interest rate risk of banking book) management; the asset and liability management department at our head office is the leading executive department for interest rate risk of banking book, liquidity risk management; the internal control and compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management; the executive office at our head office is the leading executive department for reputational risk management; the development and planning department at our head office is the leading executive department for strategic risk management.

Management Discussion and Analysis

The Company implements a relatively vertical risk management model by accrediting risk monitoring officer to important departments at our head office and each branch. The risk monitoring officer assists the president of the branch in organizing comprehensive risk management which focuses on managing and controlling various business risks that is significant, complex and difficult. The risk monitoring officer is directly response to our head office and is independent of branches reporting risk warning events to the head office, which keeps the independence of risk management.

The Company implements line risk management model which means to establish risk management centre in important business lines so as to improve the professional level and work efficiency of risk management.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to the default of counterparties and debtors or a decline in their credit. The Company's credit risk primarily relates to both on- and off-balance sheet businesses, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit and letters of guarantee.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the head office president, head office senior management, risk management committee, branch and sub-branch presidents, branch and sub-branch management teams (risk monitoring officer (supervisor)), credit review committee (team), investment and transaction review committee (team), risk management department, business department, marketing department and audit department. As authorized by the Board, the head office president who is our chief decision maker with respect to credit risk is responsible for organizing the credit risk management of the Bank and the promotion of the strategies, policies and decisions of the Board of Directors. The president is also responsible for formulating and implementing our fundamental policies and systems for credit risk management.

The Company has formulated credit risk preferences and risk control index system to effectively identify, measure, monitor, control and report credit risk of on- and off-balance sheet businesses across the bank and established a scientific, effective and dynamic mechanism for credit risk management. The Company also enhances credit system construction, revises the administrative measures on unified granting credit for corporate clients, improves standardized credit approval procedures and position risk accountability mechanism and takes effective measures to prevent credit risks.

Management Discussion and Analysis

The Company formulates fundamental policies for our credit management during the reporting period based on the changes to our operating environment and our internal operating and risk conditions. Such policies serve as instructions for the adjustments to certain aspects of our credit business, such as its industry structure, regional distribution, our customer composition and other important aspects to strengthen the management on credit business extension.

The Company continuously enhances the management on the loan risks of local governments' financing platforms. The Company strictly complies with the various lending policies and regulatory requirements of the CBRC on the financing platforms of local governments, makes dynamic adjustments to the targets of credit granting, and further optimizes the lending structure of financing platforms to prevent the credit risks that may arise from governments' financing platforms.

The Company continuously enhances the risk management on real estate loans. The Company engages in real estate credit business prudently, and adjusts our credit extension plans for the real estate industry in a timely manner; sets credit limits for the loans granting to the customers in the real estate industry and ensures that such limits are flexible and adjusted in a timely manner, as needed, and enhances our monitoring and management on the risks relating to existing loans.

The Company continuously enhances our risk management on the loans granted to the industries with excessive production capacity. The Company sets limits for the loans granting to the industries with "extremely excessive production capacity", strictly restrains the proportion of the balance of the loans granted to the industries with high pollution and energy consumption. The Company strictly controls the loans granted to the industries with seriously excessive production capacity such as the steel, coal, shipping and electrolytic aluminum smelting industries.

The Company continuously enhances the management on the credit risks of small and micro enterprises. The Company actively explores a professionalized operating model, continuously improves our management system and further combs and standardizes the procedures and requirements for credit extension, to gradually cultivate a unique and standard credit extension model of the Company. The Company also strengthens our measures for risk mitigation, and strictly controls the overdue loan ratio and non-performing loans by ways of classification, tracking overdue loans and on-site and off-site monitoring.

The Company continuously enhances the risk management for personal loans. The Company actively builds our credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance. The Company has also formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains loans with multiple borrowers as well as improves and optimizes governance mechanism of credit risk for personal loans. The Company has continuously enhanced the selection and management of guarantee, and improved our ability to mitigate credit risks. The Company has also enhanced our subsequent management such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans, to ensure our asset quality at a satisfactory level.

Management Discussion and Analysis

The Company continuously enhances the risk management for our credit card business. The Company formulates risk management measures for our credit card business, further improves the credit card risk management system featuring prior-business risk prevention, on-going risk monitoring during the process and post business management, better completes the design and operation of the process for card issuance business, determination and control of our overall business risk tolerance, as well as the risk monitoring, assessment, control, mitigation and recovery during and after the grant of a loan.

The Company continuously enhances the risk management for treasury business. We manage the risks in our bond investment business which is within our treasury business through access criteria, credit limit control and credit extension risk assessment; the bond issuers are included in our unified credit extension management system. We have revised the unified credit operational rules related to financial institutions and improved the procedures for inter-bank credit extension within treasury business.

3. Market risk management

Market risk refers to the adverse effect those normal or specific changes in interest rates, foreign exchange rates, commodity prices or stock prices may have on products involving interest rates, currencies and stocks. The market risk which we are exposed to includes the risk that the fair values of financial instruments or future cash flows held by us may fluctuate as a result of market price volatility.

The objectives of our market risk management are to manage and monitor our market risk to maintain the potential losses to be within a reasonable range acceptable and maximize the benefits as adjusted with respect to risks.

The Company has established market risk management system pursuant to the relevant measures and guidelines of CBRC, formulated market risk management policies and procedures applicable to our business nature, scale, complexity and risk features, and maintained such policies and procedures in accordance with our overall business development strategy, management capabilities and capital strength. As authorized by our Board, the head office president is our chief decision maker with respect to market risk. The head office president, relevant management committees, asset and liability management department, risk management department, financial market risk management department, financial market department, other departments and branches and sub-branches jointly comprise the Company's market risk management system at the operation level. The Company mainly takes the measures such as position setting management, credit line control, hedging and reducing risk exposures to control market risk.

During the reporting period, the Company has formulated credit risk preferences and risk control index system, revised the primary institution for market risk management and further improved the systems for market risk management.

Management Discussion and Analysis

The Company formulates the primary institution for interest rate risk of banking book and improves the risk management system for interest rate risk of banking book. The Company mainly evaluates our interest rate risk through sensitivity analysis. Based on our judgment on the trend of the benchmark interest rate and the market interest rate, the Company actively adjusts the interest rate sensitivity gap between our assets and liabilities mainly by adjusting and controlling the loans re-pricing period and the duration of our bond investment business. In the meanwhile, the Company pays close attention to the trend of local currencies and foreign currencies, keeps abreast of the changes in the market interest rates, conducts appropriate scenario analysis and adjusts the pricing methods for the interest rates of loans and deposits denominated in local currencies and foreign currencies in a timely manner to strive to prevent interest rate risk.

The market risk for the Company's trading accounts arises primarily from changes in the asset values of financial products in our trading accounts, which are affected by market interest rates and exchange rates. The Company evaluates the positions of our trading accounts on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly measures the market risk for our trading accounts through stress testing and other methods.

Management Discussion and Analysis

4. Liquidity risk management

Liquidity risk refers to the risks of failure to obtain adequate funds in time at reasonable cost to repay debts when they are due, perform other payment obligations and meet other capital requirements in the ordinary course of business. It is mainly influenced by external factors such as domestic and foreign financial conditions, macroeconomic policies, vertical and horizontal developments of financial markets and the competition outlook of the banking industry. It is also influenced by internal factors such as the maturities of assets and liabilities, business structures, the stability of deposits, the ability to obtain financing in the market and various unexpected events. We adhere to a principle of prudent management of our liquidity risk and strictly comply with regulatory requirements in order to establish a prompt, reasonable and effective liquidity risk management system, keeping our efficiency while promoting continuous, healthy and stable development on the basis of ensuring the safety of our capital operations.

The Company manages our liquidity risk in a centralized manner. The asset and liability management department at our head office is the leading executive department for our liquidity risk management. The Company's key management measures and processes for liquidity risk management include:

Paying close attention to both domestic and foreign economic and financial market trends; actively analyzing the effects of macroeconomic policies and changes in the development of financial markets on our liquidity management; adjusting our asset and liability management strategy in a timely manner and continuously optimizing the structure and terms of our liabilities.

Enhancing management of our financing channels; actively maintaining relationships with major financing counterparties; diversifying our financing sources and further optimizing our financing structure.

Strengthening the pre-warning monitoring and management on liquidity; improving our initiative for liquidity risk management; optimizing our emergency response program for liquidity risk to ensure the reliability of the funds to be used for emergency response and the effectiveness of relevant emergency measures.

Carrying out stress tests for liquidity risk on regular basis, identifying the weak links in the Company's liquidity risk management according to the tests, adjusting liquidity risk management strategies or the size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

At the end of June 2016, our liquidity coverage ratio was 74.00%, our high quality liquid assets amounted to RMB100.548 billion, and the total net cash outflows over the next 30 days was RMB135.873 billion.

Management Discussion and Analysis

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel or information technology systems, as well as external events.

During the reporting period, the objectives of operational risk management are to control our operational risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank adjusted with respect to risks. The Company continuously improved its operational risk management framework and management mechanism, reasonably integrated the management resources and enhanced risk prevention and control. The Company carried out the specific review of the operational risk across the Bank, emphasizing the implementation of systemically rectified measures and further improving the relevant systems and procedures, so as to achieve the update and optimization of multiple information systems; organized and carried out the inspection regarding banknotes business across the Bank and enhanced the inspection risks of the key areas and links based on the latest regulatory requirements and the changing trend of banking operational risks. In the first half of 2016, the Company carried out the inspection on employees' abnormal behaviors and inappropriate positions, and prevented and handled the abnormal behaviors found in the inspection timely; combed the rules and policies for various business lines across the Bank and management procedures for the key events to strengthen the effectiveness of system and procedure management and control. The Company actively propelled the establishment of operational risk standard under the new capital agreements to gradually complete the application of operational risk management tools.

6. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and losses of reputation that may result from the failure of a commercial bank to comply with laws, regulations, rules and relevant industrial standards. The Board of the Company is ultimately responsible for the compliance of our operating activities, and authorized its risk and related party transaction control committee to supervise the compliance risk management. The risk management committee at our head office is the highest management organ under the Company's senior management for the compliance risk management across the Bank. The Company has established a relatively sound compliance risk management structure and system, and optimized three lines of defense for compliance risk management and dual reporting mechanism. We continuously modified, improved our compliance risk management mechanism and improved our risk management level to achieve effective control over compliance risks.

Management Discussion and Analysis

During the reporting period, the Company continuously deepened the compliance operation philosophy, and promoted compliance management efficiency effectively while exactly knowing the characteristic of the risk prevention and control under the new economic normal and sticking to the risk bottom line. The Company published the guiding opinion on internal control and compliance and legal affairs for 2016 and implemented the requirements for compliance management objectives across the Bank. The Company focused on the market heats, key points of regulation and work, and consolidated the indicating work of compliance risk; optimized the evaluation system for internal control and compliance, deepened the idea of procedure compliance and implemented the inspection and evaluation for internal control and compliance management by the departments at our head office. The Company continuously enhanced the legal compliance risk management while actively tracing the changes of laws and regulations at home and abroad, promoted the professional levels of legal services and increased the legal support for daily operation and management, so as to guarantee us to operate in a lawful and compliance manner and the sound development of our businesses.

7. Reputational risk management

Reputational risk refers to the risk that a stakeholder will have a negative view on us as a result of our operations, management and other activities or external events.

Our objectives with respect to reputational risk management is to prevent reputational risk occurring from its source by starting with operation and management aspects; to correctly respond to news relating to us, public opinions towards us and our relationships with our customers, actively and effectively prevent reputational risk and respond to reputational events, so as to reduce and mitigate the losses of and the negative impact of such events on the Company, stakeholders and the public in the society to the greatest extent. Reputational risk management has been included in corporate governance and comprehensive risk management system.

The head office president, risk management committee, executive office, risk management department, information and technology department and other relevant departments at our head office, together with our branches and sub-branches, jointly constitute our organizational system with respect to reputational risk management of the Company at the operational management level. As authorized by our Board, the head office president is comprehensively responsible for promoting the strategies, policies and decisions of the Board, and formulating and implementing our basic systems and policies for reputational risk management.

Management Discussion and Analysis

8. Information technology risk management

During the reporting period, the Company actively implemented the Information Technology Development Planning for China Zheshang Bank (2016-2020) (“π Plan”), promoted information technology transformation from “support” to “push”, established the application systems such as Yongjin Assets Pool, Zengjin Wealth Pool, property market, finance lease system and cloud payment, etc. Meanwhile, we promoted the construction of core system of overseas Hong Kong Branch (under preparation), and endeavored to promote the application of new technology, the construction of big data technology platform as well as smart networks; studied the application of block data-link technology; based on our data backup system planning of “three centers in two different cities”, we promoted to build the new generation data center, intercity and intracity data backup center; strengthened system operation management, pushed the refinement and intellectualization of operation and maintenance; endeavored to promote information safety ecosystem engineering, perfected application safety and internet safety construction, and gradually formed a holistic, multilayered and high availability safety defense system. We implemented information technology safeguard measures proposed on G20 Hangzhou Forum; strengthened important information system safety detection, evaluation, monitoring and emergency excise to improve business continuity guarantee capability. During the reporting period, the system ran stably, no substantial information risk events occurred.

9. Anti-Money Laundering Management

During the reporting period, the Company carefully performed its social liability and legal obligations on anti-money laundering, comprehensively strengthened the anti-money laundering compliance management, and the effectiveness of the activity has been consistently promoted. We established and improved anti-money laundering internal control system, further clarified the duties and job responsibility on anti-money laundering of the Board of Directors, the Board of Supervisors and Senior Management, as well as the assignment of responsibility between relevant departments, perfected the setting of anti-laundering organization and personnel; considering the new situations and new changes of anti-laundering work, we promoted the construction of anti-money laundering system, comprehensively revised major systems including anti-money laundering work management measures; combining huge amount transaction and suspicious transaction reporting general pilots experience extending, we further optimized suspicious transaction autonomic monitoring model and system operation function, and the management capability of anti-money laundering system was further enhanced; we promoted customer data governance in classification and in steps, which effectively enhanced the accuracy and completeness of customers’ information data across the Bank.

Management Discussion and Analysis

(VII) Business Summary

1. Corporate business segment

We strive to develop ourselves into a bank that provides corporate liquidity services and full-value-chain services

Guided by the full-asset class operation strategy, our corporate banking business strived to strengthen the innovation of our business model and marketing mechanism, enhance the construction of our basic customer base, and facilitate our transformation and development to improve our core competitiveness.

We are a bank that provides corporate liquidity services. During the reporting period, to meet corporate customers' core needs for reducing financing costs and improving service efficiency, the Company continued facilitating our "pooled financing" services innovation and "Internet Plus" (互聯網+) application, continuously improved our business functions such as "Yongjin Bill Pool" (湧金票據池), "Yongjin Export Pool" (湧金出口池) and "Yongjin Asset Pool" (湧金資產池), and innovatively introduced online loan products and "1+N" credit extending model for new online supply chain to spare no efforts to develop a bank that provides corporate liquidity services. As at the end of the reporting period, the Company had 6,203 customers of Asset Pool (資產池) (Bill Pool (票據池)) who signed contracts with respect to these products, representing an increase of 60.57% as compared to that at the beginning of the year, with an accumulated pooled asset amount of RMB281.539 billion, representing an increase of 74.01% as compared to that at the beginning of the year. The accumulated accounts receivables amount of "Yongjin Export Pool" ("湧金出口池") had reached US\$1.099 billion, representing an increase of 361.76% as compared to that at the beginning of the year. We extended accounts receivables financing of US\$622 million, representing an increase of 288.75% as compared to that at the beginning of the year.

We are a bank that provides full-value-chain services. During the reporting period, the Company actively promoted transformation of traditional financial service model, explored a full-chain and comprehensive investment and financial service system, expanded corporate financing channels, and promoted innovation in trading business model which combined loans and asset securitization, engagement in private placements business of listed companies on the basis of credit increase by substantial shareholders, as well as cooperation with external private funds to participate in the direct investment in equity of governmental industrial funds. Our product lines and service lines have covered the financial needs of enterprises during each development stage, and we have established business partnership with over 100 listed companies or their shareholders. All of these have contributed to our initial capabilities to provide full-value-chain services to enterprises

Management Discussion and Analysis

(1) *Corporate customers' loans and deposits business*

The Company made positive response to the strategy of the Chinese government to promote structural reforms on the supply side and transformation and upgrade of industrial structure, explored a featured financial service model for emerging industries and intelligent manufacturing sectors, promoted intensive operation and management of our businesses with respect to local governments and real estate, enhanced our cooperation with strategic customers and construction of basic customer base, continuously optimized our business structure and customer structure and made remarkable achievements.

As of the end of the reporting period, corporate deposits were RMB614.691 billion, representing an increase of RMB124.590 billion or 25.42% as compared to that at the beginning of the year, while corporate loans were RMB292.583 billion, representing an increase of RMB50.099 billion or 20.66% as compared to that at the beginning of the year.

(2) *Investment banking business*

Through investment banking business, the Company provided customers with diversified financial services and continued to expand customer base and cultivate basic customer base for the purpose of strengthening market competitiveness and influence. We continued to increase efforts on bond underwriting so as to expand our customer group of bond underwriting, covering local governments, financial institutions and non-financial enterprises. We made breakthroughs in respect of leasing company's asset-backed bill business and constantly expanded the varieties of bonds. During the reporting period, various types of bonds underwritten by the Company amounted to RMB55.355 billion, representing an increase of 99.18% on a year-on-year basis. The credit asset-backed securities issued by us amounted to RMB3.870 billion, representing an increase of RMB2.049 billion as compared to that in 2015.

The Company ranked the 14th among the credit asset-backed securities promoters for the first half of 2016. During the reporting period, the Company was awarded "2016 Grand Awards for the Best Bank of Investment Banking (Industry) in China District" (2016中國區最佳銀行(行業)投行綜合大獎) and "The Best Bond Underwriting Bank in China District for 2016" (2016中國區最佳債券承銷銀行) by the Securities Times.

Management Discussion and Analysis

(3) *International business*

During the reporting period, the Company's international business maintained a steady and rapid growth. As of the end of the reporting period, the international settlement we have completed amounted to US\$21.906 billion, representing an increase of 111% on a year-on-year basis. Year-on-year growth rate of foreign exchange receipts and payments ranked the first among 12 nationwide joint-stock commercial banks (according to statistics by the State Administration of Foreign Exchange). The income of intermediary business amounted to RMB0.192 billion, representing an increase of 135% on a year-on-year basis. The balance of trade finance amounted to US\$7.500 billion, representing an increase of 61% on a year-on-year basis.

Supported by our professional team, we provided enterprises with flexible and competitive foreign exchange product portfolio and offered a series of structured trading programs such as "Shuangbiying Forward Foreign Exchange Settlement" (雙幣盈遠期結匯), "Cunhuitong" (存匯通) and "Gouhuitong" (購匯通) in a timely manner in response to the volatile condition of current interest and exchange rate market to help our customers avoid exchange rate risk efficiently and achieve financial appreciation, which won good market response and led to rapid increase in our total trade volume to US\$10.2 billion in half a year, representing an increase of 192% on a year-on-year basis.

We actively expanded our cooperation channels with correspondent banks and have established a good cooperation relationship with nearly 1,000 banks in nearly 150 countries (regions) at home and abroad. We provided customers with convenient and efficient cross-border financial service support by means of our extensive correspondent bank networks and service channels.

2. **Inter-bank financial segment**

Forging a bank for inter-bank trading service

The inter-bank financial segment business acquires high quality customers, designing innovative products, achieving excess returns for the Company. We have also set up six departments at the head office level, including Financial Market Department, Capital Markets Department, Financial Institutions Department, Asset Management Department, Asset Custody Department and Financial Market Risk Management Department, gradually forming an improved and professional inter-bank financial service platform. In the recent two years, in order to actively respond to the new trend of liberalization of interest rates as well as more established integrated operations and stricter regulation, the inter-bank financial segment of our Company aims to establish a "trading service bank" and adheres transformation, innovation and compliance, diversifying the source of assets and liabilities, increasing the profit gradually and enhancing value contribution. During the reporting period, the Company strengthened the cooperation with transaction entities in all kinds of capital markets through businesses, modes and the innovation of the system, participating in the construction of capital market in different levels, exploring businesses in various capital markets, innovating the business cooperation mode of the collaboration of investment and lending, providing integrated financial service to over a hundred listed company, new economic entity and local industry fund. By serving the real economy instead of the virtual economy, the Company has achieved high recognition and influence in the market.

Management Discussion and Analysis

(1) *Financial market business*

With respect to our financial market business, the Company was committed to establishing itself as a professional bank for trading services; putting aggressive efforts in setting up a comprehensive platform integrating proprietary investing and financing, proprietary trading and trading on behalf of customers; taking full advantages of various business licenses in the financial market; strengthening product innovation and business synergies in a continuous manner with an aim to provide an all-around, one-stop financial services solutions with high sustainability. During the reporting period, the Company has obtained the qualification as a first-class dealer for open market business, enabling itself to become a counterparty of the open-market operations of the People's Bank of China.

Our proprietary investment and trading business recorded rapid growth. We flexibly deployed financing tools in the money market, enhanced the capabilities of undertaking liabilities; optimized asset allocation, boosted the yield for capital operations; captured opportunities in the market and enhanced the level of activities of trading. During the reporting period, our interbank trading volume in local currency amounted to RMB6.23 trillion, representing a year-on-year growth of 150%, among which the trading volume of interest rate derivatives amounted to RMB154.2 billion, representing a year-on-year growth of 1,100%; the trading volume of foreign exchange amounted to US\$107.536 billion, representing a year-on-year growth of 165%, among which the trading volume of exchange rate derivatives amounted US\$80.2 billion, representing a year-on-year growth of 135%.

The trading service business for enterprises and medium and small-sized financial institutions grew rapidly. There were breakthroughs in the gold leasing and hedging business for corporate customers. The product line to customers of the financial market business was further improved. We provided services for derivatives trading and consulting services for fixed income investments in local and foreign currencies on behalf of medium and small-sized city commercial banks, rural commercial banks and private equity funds, expanding the scope of interbank cooperation from traditional investing and financing to advisory and consultation and enhancing the efficiency of cross-selling. During the reporting period, our foreign exchange transaction with customers amounted to US\$9.176 billion, representing a year-on-year growth of 114%, of which derivative transaction amounted to US\$3.2 billion, representing a year-on-year growth of 716%.

Management Discussion and Analysis

(2) *Interbank business*

Adhering to the operating concept of “broad inter-bank” (大同業), the company actively cooperated with various channels of interbank customers including banks, securities, insurance, trusts, funds, finance companies, financial leasing companies and financial asset management companies, adjusted the structure of interbank assets and raised the weight of investment assets with high-yield held. During the reporting period, the trading volume of bill transfer discount maintained its solid development momentum at RMB2.93 trillion, representing a year-on-year growth of 563%.

Enhance channel building and client management. During the reporting period, the Company enhanced general-to-general cooperation in order to build multi-level and diversified strategic and cooperative partnerships by signing comprehensive strategic cooperation agreements with several state-owned banks, joint-stock banks and financial leasing companies. The number of interbank credit customers continued to increase, with the base of quality customers enlarged steadily and two-way line of credit grew, laying a good foundation for the Company to deepen subsequent interbank business cooperation.

Enhance business innovation and internal management. We actively adapted to new normal through enhancing products and service innovation continuously, as well as increasing interbank investment channels. During the reporting period, the Company put efforts in developing interbank investment and interbank financing with interbank customers, which improved capital operation level effectively. We standardized interbank operation system, implemented the requirements of the interbank proprietary department, standardized business operation process, and prevented compliance and operational risks.

(3) *Asset Management Business*

The Company's asset management business is centered on serving our customers, and aims to build a professional platform that is equipped with cross-market and multi-tool applications, enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfill customers' investment and financing needs. With respect to this business, the Company continuously optimizes our product mix for investment and financing, continues to improve our capabilities in investment research, all-round exploration of fund-raising channels, open market trading and investment banking design for various projects, and providing comprehensive financial services for customers, striving to build a respected asset management business brand of China Zheshang Bank featured by “professional management, customer first, differentiated competition and leading efficiency”.

Management Discussion and Analysis

During the reporting period, the Company's asset management business continued to center on multi-level capital market system, provide capital market services of the whole value chain for each stage of corporate development and keep optimizing the client structure of the Company, hence financial service chain that can both serve real economy and satisfy direct financing needs is being built gradually. At the end of the reporting period, the balance of our wealth management products amounted to RMB242.660 billion, representing an increase of 13.35% as compared to that at the beginning of the period, including balance of open financial products which amounted to RMB122.116 billion and accounted for 50.32%, close financial products which amounted to RMB120.544 billion and accounted for 49.68%, balance of non-guaranteed financial products which amounted to RMB242.560 billion and accounted for 99.96%, and balance of guaranteed financial products which amounted to RMB100 million and accounted for 0.04%. During the reporting period, the Company issued wealth management products of a total of RMB175.224 billion, representing an increase of 37.29% on a period-on-period basis, and raised investment income of a total of RMB3.812 billion for our customers. During the reporting period, the Company put aggressive efforts in building our asset management brand and had been selected as the second permanent vice president of the Wealth Management Professional Committee of China Banking Association. The Company also obtained various professional awards including "Best Return Award" and "Best Risk Control Award" from wealth management institutions of the China Banking industry, "Best Wealth Management Brand in China" and "Best Open Bank Financial Products in China" from Securities Times, and "Best Bank Wealth Management Brand" and "Best Design of Product Fund" from 21st Century Business Herald.

(4) *Asset Custodian Business*

The Company implemented deep development, product innovation and full-process optimization of the asset custodian system and launched an electronic payment system to create a solid base for the rapid growth of the asset custodian business of the Company. As at the end of the reporting period, the balance of assets under custody amounted to RMB599.506 billion, representing an increase of 94.12% as compared to that at the beginning of the period.

The Company offers a gradually wider variety of custodian products including public offering fund, fund house client asset management product, securities house client asset management products, bank wealth management products, trust plans, equity investment funds and insurance house asset management products. As at the end of the reporting period, fund house client asset management products under custody amounted to RMB150.367 billion, increased by RMB49.087 billion as compared to that at the beginning of the period; securities house client asset management products under custody amounted to RMB174.899 billion, increased by RMB102.987 billion as compared to that at the beginning of the period; trust plans under custody amounted to RMB141.413 billion, increased by RMB71.630 billion as compared to the beginning of the period.

Management Discussion and Analysis

3. Small enterprise business

We make efforts to build a bank providing customized services for small and micro enterprises

The Company captured the economic transformation opportunities, fastened innovation, explored new finance business and mode for small and micro enterprises and built a bank providing customized services for small and micro enterprises. As of the end of the reporting period, the national-standard small enterprise loan balance of the Company was RMB120.546 billion which increased by RMB13.132 billion or 12.23% as compared to that at the beginning of the year. The increase exceeded that for the same period of last year by RMB6.178 billion.

We fastened product innovation and increased overall service capacity. We launched products and services including “accounts universal” (賬戶通) with public and private interactive payment function, “credit universal” (信用通) with limit adjusted neatly and “growth loan” (成長貸) satisfying needs of small and micro customers upon its size growth and customized exclusive finance service products including “residential loans of Small and Micro Enterprise” (小微民宿貸) and “Youth Entrepreneurs loan” (青年創客貸) against financing “pain points” of different customers, which effectively increased customer service capacity and improved customers’ average usage times of products.

We aimed at the emerging industry and expanded our customer base of small and micro enterprises. The total number of our small and micro customers reached 100 thousand through accelerating the expansion of our customer base of small and micro customers. During the reporting period, the Company has put 58% of its increased small and micro enterprise loans into the emerging industry, where the new technologies and consumption upgrading have driven the continuous growth in our customer base in emerging industry, group clients and strategic customers from the upstream and downstream of the industrial chains. We reinforced our effort to support the undertaking of the personnel from “Innovation and Entrepreneurship Program” (雙創) (such as “Thousand Talents Program For our Nation and Province” (國千、省千)) through holding the financial cooperation meeting with the personnel from “Thousand Talents Program” (千人計劃). The loan balances for “Innovation and Entrepreneurship Program” increased by RMB5.7 billion as compared to that at the beginning of this year, which results in the increase of the Company’s brand recognition for the small and micro enterprises.

We kept abreast of the policies and solved financing difficulties in “Agriculture, Rural Areas and Farmers”. We accelerated to expand the business of “two rights” mortgage loans in rural areas. According to the requirements of Interim Measures for the Pilot Program of Granting Mortgage Loans Secured with Farmers’ Housing Property Rights, we promoted the development of the business of mortgage loans secured with farmers’ housing in an orderly and steady manner on the basis of full-scale market research. As of the end of the reporting period, the balances of the mortgage loans secured with farmers’ housing was RMB342 million with 579 users.

Management Discussion and Analysis

4. Personal business

We strived to develop ourselves into a bank for personal wealth management

The Company maintained a positive development trend in business operations and achieved rapid growth in customer scale and financial assets by adhering to the development direction of building ourselves into a bank for personal wealth management and by strengthening the “Internet plus” and innovation. During the reporting period, the Company actively integrated the Internet genes and created personal business with featured competitive strengths, and successively launched businesses and products including a new version of mobile banking, a one-stop investment and wealth management platform “finance market” (財市場) and the first individual pooled credit financing product in the industry “zengjin wealth pool” (增金財富池).

The Company gradually focused on residential mortgage loans and consumption loans. During the reporting period, the Company launched a new consumption loan product “Zhe mortgage loan” (浙抵貸). The aggregate balance of residential mortgage loans and consumption loans increased by 165% as compared to that of the beginning of the year and loan quality kept excellent.

(1) *Wealth management*

During the reporting period, the Company kept increasing individual finance service capacity and expanding basic customer base while focusing on marketing and promotion of wealth management products including Zengjinbao (增金寶) and Yongle (永樂) series and innovating to launch such new products as Youlijia (優利加) and private bank wealth management (私行理財). The Company also innovated marketing methods and kept launching the activity of “special pick-up to Zheshang for wealth management” (專車接送來浙理財).

As of the end of the reporting period, the number of effective individual customers was 1.5265 million, increased by 38.73% as compared to that of the beginning of the year; individual financial assets balance was RMB94.208 billion, increased by 31.30% as compared to that of the beginning of the year; Zengjinbao (增金寶) was rewarded as “the best deposit product” by The Asian Banker.

Management Discussion and Analysis

(2) Credit card business

During the reporting period, we issued more than 500,000 credit cards in accumulation, which realized a consumption of RMB3.372 billion and overdraft balance of RMB0.926 billion. The circulation, consumption and overdraft of credit cards increased steadily.

The Company cooperated with an international card organization VISA and jointly issued the Visa Card with Crowd-funding Dreams (眾籌夢想Visa卡); launched characteristic services including personalized card; carried on card issuance promotion activities including “concerted efforts, crowd-funding dreams” (齊心合力,眾籌夢想) and “spring blossoms” (春暖花開) and built promotion brand “Accommodation & Entertainment, Full Strategies for Life in Zhe” (食宿行樂,浙有生活全攻略), which greatly improved the customers’ card using experience and service quality.

We were rewarded the “Most Potential Award for UnionPay Card Business” (銀聯卡業務最具潛力獎), “Sincere Cooperation Award for Visa in China’s Banks” (Visa中國區銀行精誠合作獎) and “TOPDigital Brand Building Gold Award” (TOPDigital品牌建設金獎).

Management Discussion and Analysis

5. Internet Finance and Electronic Banking

(1) Internet Finance

During the reporting period, the Company captured the significant opportunity brought by “Internet Plus” strategy implemented by our nation, and targeted the corporate and individual clients in the Internet environment as our service and marketing target. We innovated in the featured Internet financial products and our service platform, deepened the cooperation with Internet finance ecosystem and built the Internet financial characteristics and the brand of the Company starting with the typical problems of our clients and the application scenarios.

First, we innovatively launched the featured Internet financial products such as “Receipt and Payment Express”, “Custody Express”, “E-commerce Payment” and “Mobile Cloud Pay”. Among others, “Receipt and Payment Express” focuses on the trading agency service in terms of receipt and payment, which is offering multi-channel and round-the-clock integrated service of payment and settlement; “Custody Express” provides “standard model+ customized” bank custody service for bulk trading; “E-commerce Payment” provides various payment models of E-commerce transaction for different E-commerce platforms and different users; and “Mobile Cloud Pay” puts its emphasis on developing large and medium E-commerce platforms with higher business growth potential, on mobile payment application scenarios closely related with people’s “clothing, food, living and transportation”, and on new applications in mobile payment industries such as school bills, medical and sanitary sectors and intelligent supermarkets.

Second, we conducted comprehensive custody business cooperation, and have developed a multi-class custody business system including custody for third party payment companies, custody for bulk trading and custody for prepaid card for single purpose. In the first half of this year, custody business for prepaid card for single purpose has been conducted, custody business for third party payment companies has begun to take shape, and custody business for bulk trading has made a breakthrough.

Third, we continued to deepen our cooperation with non-bank payment institutions, institutions in financial market, institutions in securities industry, corporations in fields such as online borrowing, E-commerce, consumer finance and public utilities, centering on strategies of win-win cooperation and mutualistic symbiosis under the Internet finance ecosystem, attributable to which, we have made a breakthrough and have gained nearly 100 projects in total in respect of which cooperation intention has been reached in the first half of this year.

Fourth, we actively joined in the National Internet Finance Association of China to promote the development of Internet finance business. The Company successfully became a council member of the National Internet Finance Association of China. Relying on the platform of the association, we further strengthened our position and influence in the industry; we actively promoted the construction of Zhejiang Association of Internet Finance and took a lead in the establishment of the public relationship committee of the association; and we strengthened the connection with Internet finance associations in various regions, and cooperated actively with each member of the association.

Management Discussion and Analysis

(2) **Electronic banking**

The Company has comprehensively formed an electronic banking services system consisting of online banking, direct selling mobile banking, telephone banking, mobile banking, WeChat Banking and self-service banking system. The replacement rate of electronic banking channels reached 95.90%, which is a leading level in the industry.

Online banking

During the reporting period, the Company continued to optimize and upgrade the personal online banking, by newly adding various functions like Money Market, Golden Fortune Pool and personal loans. New interface style has been launched to greatly facilitate friendly interaction. As of the end of the reporting period, the Company had nearly 30% more certificate customers of online banking than that of the beginning of the year.

Corporate online banking channel has become the most important self-service channel for our corporate customers. The channel continued to maintain steady development, with the customer base getting enlarged and customer trading vitality advancing ceaselessly. During the reporting period, transaction settled through the corporate online banking amounted to nearly RMB2 trillion.

Direct selling mobile banking

During the reporting period, direct selling mobile banking had covered the direct selling mobile banking of the Company's official website, mobile Zengjinbao App and WeChat banking etc., becoming a main channel for the sale of investment and financial products. Particularly, the online personal financial products transfer service has gained extensive recognition among users, and was named "Best Customer Experience" in the Gold List of E-banking in China. As of the end of the reporting period, the number of customers in direct selling mobile banking reached 530,000.

Telephone banking

Customer service center upholds the service motto of "customer-centered" by breaking the traditional mindset of customer service to build a multi-channel operating platform assembling telephone, QQ corporate telephone, text messaging and other online services. More customers could be reached by taking advantage of service contacts and natural interaction, while their needs could be deeply recognized through cross-marketing or secondary marketing, which effectively enhanced integrated value contribution of customers.

Management Discussion and Analysis

Mobile banking

During the reporting period, the Company was committed to forging mobile banking as the main platform for mobile financial services, launching a new version of mobile banking through deep integration of mobile Internet technology. Interface of the new version of mobile banking is clear and easy to use, thus greatly enhances the customer experience. As such, it was named "2016 Innovative mobile banking" by Sina Finance. As of the end of the reporting period, the Company had nearly 50% more personal customers of mobile banking than that of the beginning of the year.

WeChat banking

During the reporting period, the Company was committed to establishing WeChat banking to be an important platform for new types of financial services and brand promotion. As of the end of the reporting period, the Company had nearly 800,000 customers in WeChat banking, while amount of information being read in WeChat banking exceed 3.6 million times. The official public WeChat banking was named "2016 Best Social Marketing Platform in Financial Sector" in Golden Chestnut Award of China Financial Marketing.

Self-service banking

During the reporting period, the Company continued to establish the self-service banking channels to provide customers with 7x24 hours self-service banking such as automated teller machines and cash recycling systems, so as to fully meet the needs of deposits, withdrawals, transfers, balance inquiries, modify passwords and other financial services from customers.

(VIII) Outlook

In the second half of 2016, the Company, under the guidance of the vision of "becoming the most competitive nationwide joint-stock commercial bank and the most important financial platform in Zhejiang province", will continue to promote the implementation of our full-asset class operation strategy. Centering on three main cores of integration, digitalization and flattening, we will fully implement strategic measures under "Third-Five-Year" plan, create strong leading capability of headquarter, achieve first-class execution, stay ahead of competitors in innovation, coordinate with each other to achieve efficiency and win-win, hold strategic composure with high ambition and own soft power with agility and pragmatism. We will always be customer-oriented to accelerate the establishment of customer management structure system and consistently expand customer base by focusing on capital creation and sales ability. We will continue to enhance our innovation in the business mode targeted at the market and customer experience and the modification on our business procedures, keep improving financial function, enrich products and services system, and speed up the cultivation of distinguishing competition. The Company will also deepen comprehensive risk management, endeavor to build comprehensive risk management system which adapts to full-asset class operation strategy, and strengthen management of various risks.

(I) Overview of Corporate Governance

During the reporting period, the Company further improved its system construction, gave full play to the Board's responsibilities of strategy formulation, risk management and internal control, strengthened the Board of Supervisors' supervision and enhanced communication among the Board of Directors, the Board of Supervisors and Senior Management.

During the reporting period, the Company held a total of 24 meetings, including 1 shareholders' general meeting, 3 meetings of Board of Directors, 11 meetings of special committees under Board of Directors, 4 meetings of the Board of Supervisors and 5 meetings of special committees under Board of Supervisors. Material resolutions, such as the Company's annual report, working reports of the Board and the Board of Supervisors, working report of the president, financial account report, financial budget report, profit distribution scheme, report of related party transactions and organization establishment scheme were reviewed and approved at these meetings.

During the reporting period, the Company, in accordance with the domestic and overseas regulatory requirements, formulated and amended various policies and measures including the Articles of Association of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司章程》), the Policy for the Diversified Composition of the Board of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司董事會多元化政策》), Shareholders' Communication Policy of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司股東通訊政策》), Code for Securities Transactions of Directors, Supervisors and Employees of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司董事、監事及僱員證券交易守則》), Administrative Measures for Disclosure of Information of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司信息披露管理辦法》), the Interim Measures for Investor Relations Management of China Zheshang Bank Co., Ltd. (《浙商銀行股份有限公司投資者關係管理暫行辦法》), Guidelines on Operating Procedures of Related Party Credit Business of China Zheshang Bank (《浙商銀行關聯方授信業務操作規程》) and Administrative Measures for Share Pledge of China Zheshang Bank (《浙商銀行股權質押管理辦法》), which further improved the corporate governance system of the Company.

During the reporting period, the Board of Directors had field surveys on Nanjing Branch, Chongqing Branch, Chengdu Branch and Wuhan Branch to acquire general knowledge of the implementation of our full-asset class operation strategy of each branch and conclude and analyze the experience they gained and challenges they faced, thereby making more targeted and effective decisions by the Board of Directors. Besides, the Company continuously tracked the implementation of resolutions of the Board of Directors through implementation supervision, so as to enhance the Board's ability to control the implementation of strategies.

During the reporting period, the Board of Supervisors had field surveys on Guangzhou Branch, Quzhou Branch and Lishui Branch to acquire on-site knowledge of the operation and management information of each branch, and focused on a thorough analysis on credit risks, liquidity risks and market risks and made corresponding recommendations in this regard.

Corporate Governance

(II) Shareholders' General Meeting

On June 15, 2016, the 2015 annual general meeting of the Company was held in Hangzhou, on which various resolutions were considered and approved, including the 2015 Work Report of Board of Directors of China Zheshang Bank Co., Ltd., 2015 Work Report of Board of Supervisors of China Zheshang Bank Co., Ltd., 2015 Financial Account Report of China Zheshang Bank Co., Ltd., 2015 Profit Distribution Scheme of China Zheshang Bank Co., Ltd., 2016 Financial Budget Report of China Zheshang Bank Co., Ltd., the Appointments and Remunerations of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, as the Domestic and International Auditors of the Company Respectively for the Year 2016 to Hold Office until the Conclusion of the Next Annual General Meeting, Resolution on the Election of Ms. Cheng Huifang as an External Supervisor of the Company, Resolution on the Remuneration of Chairman of the Board for 2015, Resolution on the Remuneration of Chairman of the Supervisory Committee for 2015, Resolution on the Acquisition and Lease of Office and Business Properties for Hangzhou Branch of the Bank, and Resolution on the Amendments to the Articles of Association of China Zheshang Bank Co., Ltd..

For details of the relevant resolutions considered at the meeting, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company.

(III) Meetings of the Board and its Special Committees

During the reporting period, 3 meetings of the Board of Directors were convened, on which 37 resolutions were considered and approved, and 3 special reports were debriefed.

During the reporting period, a total of 11 meetings of the special committees under the Board of Directors were convened, including 2 meetings of the Strategic Committee, 2 meetings of the Audit Committee, 5 meetings of the Risk and Related Party Transaction Control Committee and 2 meetings of the Nomination and Remuneration Committee.

(IV) Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Company held 4 meetings of the Board of Supervisors to review 15 resolutions. A total of 5 meetings of the special committees under the Board of Supervisors were convened, including 4 meetings of the Nomination Committee for review of 6 resolutions and 1 meeting of the Supervision Committee under the Board of Supervisors for review of 2 resolutions.

(V) The Policy for the Diversified Composition of the Board of Directors

Pursuant to relevant regulations of Hong Kong Listing Rules, the Company formulated the Policy for the Diversified Composition of the Board of China Zhesang Bank Co., Ltd. (《浙商銀行股份有限公司董事會多元化政策》), which expressly stated that the Board of Directors would consider its composition from a diversified perspective in various aspects, including but not limited to gender, age, culture and education background, professional experience, skill, knowledge and/or service term.

(VI) Implementation of Information Disclosure

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place where the Company is listed. On the basis of comprehensively and deeply learning various regulatory rules, the Company continuously sort out and perfect the implementation details of information disclosure management matter from the aspect of system structure and institutional level.

During the reporting period, the Company accurately, truly and completely disclosed various information in a timely manner, and a total of 33 announcements were released, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of Company's governance.

Corporate Governance

(VII) Investor Relations Management

The Company consistently makes good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition on the Company.

During the reporting period, taking listing in Hong Kong as an opportunity, the Company strengthened market communication and introduction, and the management conducted several roadshows in America, Singapore, Hong Kong, Beijing and Shanghai. They made in-depth exchange with the investors and the analysts, timely answered the questions that investors concerned, and effectively expanded the coverage of the investors.

During the reporting period, the Company formulated and perfected the administrative measures for investor relations in accordance with the regulatory requirements of the listing place and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled over one hundred events in connection with investor relations, timely answered and fed back the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhance the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about advice and proposals for the Company's operation and development from capital market.

(VIII) Securities Transactions by Directors and Supervisors

The Company had adopted a Code of Conduct for Securities Transactions by Directors and Supervisors no looser than the Model Code in Appendix 10 of Hong Kong Listing Rules. The Company had inquired all Directors and Supervisors and confirmed that they had been complying with the aforesaid Code during the period from the listing date (March 30, 2016) to June 30, 2016.

(IX) Statement of Compliance with the Corporate Governance Code as Set out in Hong Kong Listing Rules

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the provisions of the Code during the period from the listing date (March 30, 2016) to June 30, 2016.

Changes in Shares and Information on Shareholders

(I) Changes in Shares

During the reporting period, changes in the Company's Shares are as follows:

	December 31, 2015		Changes in the number during the reporting period (Shares)	June 30, 2016	
	Number (Shares)	Proportion (%)		Number (Shares)	Proportion (%)
Domestic shares	14,509,696,778	100.00	-345,000,000	14,164,696,778	78.87
H shares	–	–	+3,795,000,000	3,795,000,000	21.13
Total shares	14,509,696,778	100.00	+3,450,000,000	17,959,696,778	100.00

Notes:

- (1) The Company was listed on Hong Kong Stock Exchange on March 30, 2016 and fully exercised over-allotment option on April 19, 2016. The number of shares in the global offering was 3,795,000,000 H shares (comprising 3,450,000,000 new H shares offered by the Company and 345,000,000 sale shares offered by the selling shareholders). The share capital of the Company is 17,959,696,778 shares (comprising 14,164,696,778 domestic shares and 3,795,000,000 H shares) following the completion of the issuance.
- (2) As of the end of the reporting period, the Company had a total of 26 domestic shareholders and a total of 149 H shareholders.

Changes in Shares and Information on Shareholders

(II) Shareholdings of Top Ten Shareholders

No.	Name of shareholders	Nature of shareholders	Changes in the shares during the reporting period (Shares)	Number of shares held at the end of the reporting period (Shares)	Percentage of total share capital (%)	Class	Number of pledged shares (Shares)
1	HKSCC Nominees Limited ⁽¹⁾	–	+3,794,709,000	3,794,709,000	21.13	H shares	Unknown
	Herein: Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	State-owned legal person	+1,000,000,000	1,000,000,000	5.57	H shares	–
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned legal person	-241,110,781	2,655,443,774	14.79	Domestic shares	–
3	Traveller Automobile Group	Domestic non-state-owned legal person	–	1,346,936,645	7.50	Domestic shares	310,000,000
4	Hengdian Group Holdings Limited	Domestic non-state-owned legal person	–	1,242,724,913	6.92	Domestic shares	143,169,642
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned legal person	-76,377,827	841,177,752	4.68	Domestic shares	–
6	Minsheng Life Insurance Company Ltd. ⁽²⁾	Domestic non-state-owned legal person	–	803,226,036	4.47	Domestic shares	–
7	China Wanxiang Holding Co., Ltd. ⁽²⁾	Domestic non-state-owned legal person	–	543,710,609	3.03	Domestic shares	–
8	Zhejiang Yongli Industry Group Co., Ltd.	Domestic non-state-owned legal person	–	518,453,371	2.89	Domestic shares	518,453,371
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic non-state-owned legal person	–	518,453,371	2.89	Domestic shares	396,630,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic non-state-owned legal person	–	508,069,283	2.83	Domestic shares	–

Notes:

- (1) The shares held by HKSCC Nominees Limited represent the total number of shares in the accounts of H shareholders of China Zheshang Bank as a nominee that are traded on the transaction platform of HKSCC Nominees Limited.
- (2) To the best knowledge of the Company, as of the end of the reporting period, among the top ten shareholders mentioned above, China Wanxiang Holding Co., Ltd. held 37.32% shares of Minsheng Life Insurance Company Ltd.. Apart from that, the Company is not aware of any connection among the above shareholders or whether they are parties acting in concert.

Changes in Shares and Information on Shareholders

(III) Interests and Short Positions in Shares and Relevant Shares Owned by Substantial Shareholders and Other Persons under Hong Kong Regulations

As of June 30, 2016, pursuant to the register entered by the Company under Section 336 of SFO, and to the best knowledge of the Company, the following persons (except for the Directors, Supervisors and Chief Executives of the Company (as defined in Hong Kong Listing Rules)) had interests and short positions in our shares or relevant shares which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Domestic shares:

Name of Shareholder	Nature of interests and capacity	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital (%)	Approximate percentage of the relevant class of shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Benefit owner	Long position	2,655,443,774	14.79	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Long position	2,655,443,774	14.79	18.75
China WanXiang Holding Co., Ltd.	Benefit owner and interest of controlled corporation	Long position	1,346,936,645	7.50	9.51
Mr. Lu Weiding	Interest of controlled corporation	Long position	1,346,936,645	7.50	9.51
Traveller Automobile Group	Benefit owner	Long position	1,346,936,645	7.50	9.51
Shanghai Junzhu Equity Investment Management Co., Ltd.	Interest of controlled corporation	Long position	1,346,936,645	7.50	9.51
Mr. Lin Cong	Interest of controlled corporation	Long position	1,346,936,645	7.50	9.51
Zhejiang Hengyi Group Co., Ltd.	Benefit owner and interest of controlled corporation	Long position	1,242,724,913	6.92	8.77

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital (%)	Approximate percentage of the relevant class of shares (%)
Mr. Qiu Jianlin	Interest of controlled corporation	Long position	1,242,724,913	6.92	8.77
Hengdian Group Holdings Limited	Benefit owner	Long position	1,242,724,913	6.92	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Long position	1,242,724,913	6.92	8.77
Guangsha Holding Group Co., Ltd.	Benefit owner and interest of controlled corporation	Long position	954,655,630	5.32	6.74
Mr. Lou Zhongfu	Interest of controlled corporation	Long position	954,655,630	5.32	6.74
Mr. Chen Xiaxin	Interest of controlled corporation	Long position	880,546,358	4.90	6.22
Zhejiang Provincial Energy Group Company Ltd.	Benefit owner	Long position	841,177,752	4.68	5.94
Minsheng Life Insurance Company Ltd.	Benefit owner	Long position	803,226,036	4.47	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Co., Ltd.	Benefit owner and interest of controlled corporation	Long position	760,810,192	4.24	5.37
Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Long position	760,810,192	4.24	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Benefit owner and interest of controlled corporation	Long position	748,069,283	4.17	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Long position	748,069,283	4.17	5.28

Changes in Shares and Information on Shareholders

H shares:

Name of Shareholder	Nature of interests and capacity	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital (%)	Approximate percentage of the relevant class of shares (%)
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Benefit owner	Long position	1,000,000,000	5.57	26.35
Yancoal International (Holding) Company Limited	Benefit owner	Long position	488,000,000	2.72	12.86
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	Long position	488,000,000	2.72	12.86
Yankuang Group Company Limited	Interest of controlled corporation	Long position	488,000,000	2.72	12.86
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Benefit owner	Long position	250,000,000	1.39	6.59
Zhejiang Lingyan Capital Management Co., Ltd	Interest of controlled corporation	Long position	250,000,000	1.39	6.59
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	Long position	250,000,000	1.39	6.59
Liu Yaozhong	Interest of controlled corporation	Long position	250,000,000	1.39	6.59
Shenzhen Pingan Dahua Huitong Wealth Management Co., Ltd.	Interest of controlled corporation	Long position	250,000,000	1.39	6.59
Shenzhen Qianhai Guangda Xikang Industry Fund Company (Limited Partnership) (深圳前海光大熙康產業基金企業(有限合夥))	Benefit owner	Long position	249,999,000	1.39	6.59
Zhuji Tongrui Machinery Technology Co., Ltd. (諸暨通瑞機械科技有限公司)	Benefit owner	Long position	208,202,000	1.16	5.49
Zhuji Yutian Corporate Management and Consultation Co., Ltd. (諸暨裕天企業管理諮詢有限公司)	Benefit owner	Long position	208,202,000	1.16	5.49
China Yinsheng Securities Limited	Custodian-corporation/approved lending agent	Long position	207,760,000	1.16	5.47

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Long/short position	Number of Shares (Shares)	Approximate percentage of total share capital (%)	Approximate percentage of the relevant class of shares (%)
Hong Kong Bao Da Financial Holdings Limited	Benefit owner	Long position	207,760,000	1.16	5.47
Bao Da Financial International Limited	Interest of controlled corporation	Long position	207,760,000	1.16	5.47
Great Sphere Developments Limited	Interest of controlled corporation	Long position	207,760,000	1.16	5.47
China Goldjoy Group Limited	Interest of controlled corporation	Long position	207,760,000	1.16	5.47
Tinmark Development Limited	Interest of controlled corporation	Long position	207,760,000	1.16	5.47
Yao Jianhui	Interest of controlled corporation	Long position	207,760,000	1.16	5.47
SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Wuxingbaichuan No. 13 Unitrust	Benefit owner	Long position	199,037,000	1.11	5.24
Changan Assets-Yuhebaichuan Special Asset Management Plan	Interest of controlled corporation	Long position	199,037,000	1.11	5.24
SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Yuhejingming Collective Trust Plan(Trust Unit of Phase X2)	Interest of controlled corporation	Long position	199,037,000	1.11	5.24
China Yintai Investment Company Limited	Interest of controlled corporation	Long position	199,037,000	1.11	5.24
Beijing Guojun Investment Company Limited	Interest of controlled corporation	Long position	199,037,000	1.11	5.24
Shen Guojun	Interest of controlled corporation	Long position	199,037,000	1.11	5.24
Shenwan Hongyuan Group Co., Ltd.	Benefit owner	Long position	195,000,000	1.09	5.14
China Jianyin Investment Limited	Interest of controlled corporation	Long position	195,000,000	1.09	5.14
Central Huijin Investment Ltd.	Interest of controlled corporation	Long position	195,000,000	1.09	5.14

Save as disclosed above, our Company was not aware of any other persons (except for the Director, Supervisor and Chief Executives of our Company (as defined in Hong Kong Listing Rules)) who had any interests and short positions in our Shares and underlying shares, which was required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or pursuant to Section 336 of SFO, to be entered in the register referred to therein on June 30, 2016.

Directors, Supervisors, Senior Management, Employees and Institutions

(I) Basic Information of Directors, Supervisors and Senior Management

As of the end of the reporting period, the structure of the Board of Directors, the Board of Supervisors and senior management of the Company is as follows:

The Board of Directors of our Company consists of 17 Directors, including four executive Directors: Mr. Shen Renkang, Mr. Liu Xiaochun, Ms. Zhang Luyun and Mr. Xu Renyan; seven non-executive Directors: Mr. Wang Mingde, Ms. Wang Yibing, Ms. Shen Xiaojun, Ms. Gao Qinhong, Mr. Hu Tiangao, Ms. Lou Ting and Mr. Wei Dongliang; and six independent non-executive Directors: Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu.

The Board of Supervisors of our Company consists of 13 Supervisors, including four shareholder representative Supervisors: Mr. Yu Jianqiang, Mr. Tao Xuegen, Mr. Zhou Yang and Mr. Huang Haibo; four Employee representative Supervisors: Mr. Zheng Jianming, Mr. Dong Zhoufeng, Mr. Ge Lixin and Mr. Zhang Rulong; and five external Supervisors: Mr. Jiang Zhihua, Mr. Yuan Xiaoqiang, Mr. Huang Zuhui, Mr. Wang Jun and Ms. Cheng Huifang.

The senior management of our Company consists of 9 members: Mr. Liu Xiaochun, Mr. Xu Renyan, Mr. Ye Jianqing, Mr. Zhang Changgong, Mr. Xu Manxuan, Mr. Wu Jianwei, Mr. Liu Long, Mr. Jiang Yulin and Mr. Feng Jiansong.

(II) The Information of the Appointment and Resign of Directors, Supervisors and Senior Management

On April 7, 2016, Mr. Zheng Xinli submitted his resignation to the Board of our Company due to the needs of other job arrangement, and has no longer been an independent non-executive Director of our Company.

On April 22, 2016, the appointment of Mr. Wu Jianwei, Mr. Liu Long and Mr. Jiang Yulin as vice presidents of the Company was approved at the fifth meeting of the fourth session of Board of the Company, and in the meantime, Mr. Chen Chunxiang was dismissed as vice president of the Company. On July 22, 2016, the CBRC approved the qualifications of Mr. Wu Jianwei and Mr. Jiang Yulin of being vice presidents of the Company.

Mr. Wu Jianwei (吳建偉) is a postgraduate and senior engineer. Mr. Wu worked in Zhejiang provincial branch, Agricultural Bank of China where he successively held the positions of vice section chief of application development section of information and technology department I, section chief of sales development department, assistant to director; he served as vice director of data operation center; he held the position of vice division chief (in charge) of e-bank division and division chief of E-bank division; general manager of E-bank department; secretary of CPC Committee and president of Wenzhou branch, Agricultural Bank of China; CPC party committee member and president assistant of Inner Mongolia Autonomous Region branch of Agricultural Bank of China and president assistant of China Zheshang Bank.

Directors, Supervisors, Senior Management, Employees and Institutions

Mr. Liu Long (劉龍) is an undergraduate and senior accountant. Mr. Liu worked at finance and tax bureau of Changshan County, Zhejiang, during which period he served as vice director and CPC party member; secretary of CPC party committee of Tianma Town, Changshan County, Zhejiang; director and secretary of CPC committee of planning and economy committee of Changshan County, Zhejiang; vice director and CPC committee member of auditing bureau of Quzhou City, Zhejiang; county CPC standing committee member of Changshan County, Zhejiang, as well as vice county chief of Changshan County People's Government; vice secretary of CPC county committee, vice county chief and vice secretary of CPC county committee, vice secretary of CPC committee of Changshan County, Zhejiang and chairman of People's Political Consultative Conference of Changshan County, Zhejiang; director and secretary of CPC committee of the economic and information committee of Quzhou City, Zhejiang; vice secretary general and executive office director of Quzhou Municipal Government, Zhejiang. He has been the secretary of the Board of China Zheshang Bank since February 2015 and the joint company secretary of China Zheshang Bank since June 2015.

Mr. Jiang Yulin (姜雨林) is an undergraduate. Mr. Jiang successively worked as an employee of the operation department of Hangzhou branch of PBOC; vice section chief of accounting management section of accounting department, section chief of development and management section of retail business department, division chief of corporate business division IV of operation department and retail business division of Hangzhou branch, China CITIC Bank; president of Jiefang sub-branch of Hangzhou branch and Tianshui sub-branch, China CITIC Bank; president assistant of Hangzhou branch, China CITIC Bank; vice president and general manager of operation department of Hangzhou branch, China CITIC Bank; general manager of corporate banking department of China CITIC Bank; director of CITIC Financial Leasing Co., Ltd..

On June 15, 2016, the Company held the annual general meeting for 2015, at which Ms. Cheng Huifang was elected as an external Supervisor of the fourth session of the Board of Supervisors.

Ms. Cheng Huifang (程惠芳) is the holder of a doctoral degree, a professor and doctoral supervisor. Ms. Cheng successively worked as the lecturer and the vice professor of Zhejiang Chemical College and Zhejiang Institute of Technology (now known as Zhejiang University of Technology); the assistant to the president, the executive vice president and the president of College of Economics and Management, Zhejiang University of Technology. She currently acts as the president of Global Institute for Zhejiang Merchants Development, Zhejiang University of Technology and the general director of Zhejiang Institute of Financial Engineering.

On August 19, 2016, Mr. Wei Dongliang submitted his resignation to the Board of our Company due to the needs of other job arrangement, and has no longer been a non-executive Director of our Company.

On August 19, 2016, Mr. Huang Haibo submitted his resignation to the Board of Supervisors of our Company due to the needs of other job arrangement, and has no longer been a shareholder representative Supervisor of our Company.

Directors, Supervisors, Senior Management, Employees and Institutions

(III) Changes of Occupations of Directors and Supervisors

Ms. Wang Yibing, a non-executive Director of the Company, acts as a non-executive director of Yongan Futures Co., Ltd. and has ceased to be the non-executive director of Zhejiang Material Industrial Zhongda Yuantong Group Co., Ltd. (浙江物產中大元通集團股份有限公司).

Mr. Dai Deming, an independent non-executive Director of the Company, acts as the independent non-executive director of BOC Aviation Limited.

Mr. Liu Pak Wai, an independent non-executive Director of the Company, has ceased to be the independent non-executive Director of Hang Lung Properties Limited (恒隆地產有限公司).

Mr. Zheng Jindu, an independent non-executive Director of the Company, acts as an independent non-executive director of Zhejiang Wonderful-wall Building Materials Co., Ltd. (墻煌新材料股份有限公司) and Sundry Land Investment Co., Ltd. (宋都基業投資股份有限公司).

(IV) Employees

At the end of the reporting period, we had 9,747 employees in total (including those dispatched outside), the number of which increased by 1,387 compared with the end of the last year. Based on the position types, 4,138 were marketing personnel, 1,320 were counter personnel, and 4,289 were mid-office and back-office personnel; based on educational levels, 1,657 obtained post-graduate degree or above (including 47 with doctorate degree), 6,544 obtained bachelor degree, and 1,546 obtained associate degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 13 employees had retired from the Company.

Following the remuneration policies that are in line with our development strategies, guided by the concept of people first, oriented to market, and equipped with comprehensive standardized management, the Company improved its remuneration management mechanism that determines the remuneration according to the salary levels based on position types, and optimized the remuneration determination mechanism that is based on individual performance and organizational performance. Focused mainly on capability and performance, we tried to establish and improve a market-oriented remuneration system that embodies internal fairness and external competitiveness, spurs development of both the employees and the Company, and emphasizes both welfare and incentives, and is based on the value of positions.

Centered on our operation and development strategies, based on the improvement of professional capabilities and operating results, and on the basis of carrying out all-staff training program, our Company highlights the cultivation of core, key and special talents and practices a variety of trainings including leadership training, business line core personnel training and training for personnel holding key positions, so as to raise the professional capabilities and quality of our employees at their positions. During the reporting period, the Bank held 706 training courses in total with 65,290 attendances.

Directors, Supervisors, Senior Management, Employees and Institutions

(V) Branches

Name of Institution	Business address	Tel. No.	Postal code	Number of institutions	Number of employees
Headquarters	No. 288, Qingchun Road, Hangzhou	95527	310006	1	1,367
Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	37
Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	7	504
Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271223	300204	9	485
Shenyang Branch	No. 56, Qingnian main street, Shenhe District, Shenyang	024-31259003	110014	3	187
Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	10	435
Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	12	705
Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	6	275
Jinan Branch	No. 185, Heixi Road, Lixia District, Jinan, Shandong	0531-80961706	250011	5	424
Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430000	1	126
Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	1	173
Shenzhen Branch	Times Science and Technology Mansion, No. 7028, Shennan Avenue, Futian District, Shenzhen	0755-82760666	518040	6	364
Chongqing Branch	Xingguang Building Block A, No. 1, Xingguang Avenue, New Liang Jiang Zone, Chongqing	023-88280800	401121	4	296
Chengdu Branch	No. 39, Ximianqiao Street, Wuhou District, Chengdu	028-85579955	610041	8	397
Xi'an Branch	No. 311, West Avenue, Xi'an	029-88121212	710002	7	413
Lanzhou Branch	No. 308, Baiyin Road, Chengguan District, Lanzhou	0931-8172110	730030	4	298
Hangzhou Branch	No. 736, Jianguo North Road, Hangzhou	0571-87330733	310004	27	1,553
Ningbo Branch	No. 739, Zhongxing Road, Jiangdong District, Ningbo	0574-81855678	315040	11	550
Wenzhou Branch	Zhongtong Building, No. 319, Xincheng Avenue, Wenzhou	0577-88079900	325001	8	417
Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166066	312030	7	345
Yiwu Branch	South Hall F-zone, International Business & Trade Mansion Phase 2, Shangcheng Avenue, Yiwu, Zhejiang	0579-85190218	322000	5	297
Zhoushan Branch	Pavilion 2, No. 111, Haiyu Road, Lincheng Town, Zhoushan	0580-2260302	316021	2	99
Total				145	9,747

Significant Events

(I) Purchase and Sale and Redemption of Securities

During the reporting period, the Company did not purchase, sell or redeem any of the Company's listed securities.

(II) Use of Proceeds

The Company was listed on Hong Kong Stock Exchange on March 30, 2016 with the stock code of 2016, and fully exercised Over-allotment Option on April 19, 2016. The number of shares in the global offering was 3,795,000,000 H shares (comprising 3,450,000,000 new H shares offered by the Company and 345,000,000 sale shares sold by the selling shareholders); the offer price was HK\$3.96 per H share, and the nominal value was RMB1.00 per H share; the net proceeds amounted to approximately HK\$13.334 billion.

According to the usage disclosed in the prospectus, the proceeds are used for supplementing the Company's capital to meet the needs for sustained growth of our businesses and support the continuous, rapid and sound development of our businesses.

(III) Material litigations and Arbitrations

The Company was involved in certain legal proceedings in the ordinary course of business. Most of these litigations are filed by the Company in order to recover non-performing loans and include litigations because of disputes with customers. As of June 30, 2016, there were five pending litigations to which the Company was a defendant with a total amount of RMB23.0532 million claimed. The Company expects that such pending litigations will not materially and adversely affect the Company's business, financial position or operating results.

(IV) Material Related Party Transactions

During the reporting period, the Company did not have any material related party transactions. For related party transactions within the meaning of accounting standards, please see "Notes to the Financial Statements-36 Related Party Transactions".

(V) Material Contracts and Their Performance

Significant events relating to custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

Significant Events

Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBRC, there were no other significant guarantees required to be disclosed.

(VI) Material Purchase, Sale or Disposal of Assets and Corporate Mergers

The Company did not carry out any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

(VII) Stock Incentive Plan

The Company did not implement any stock incentive plan.

(VIII) Interests Owned by the Directors, Chief Executives and Supervisors in the Company

As of June 30, 2016, except as disclosed in this report, none of the Company's Directors, chief executives, Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of Hong Kong SFO) which were required to be recorded in the register required to be kept under Section 352 of Hong Kong SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(IX) Disciplinary Actions Imposed on the Company or its Directors, Supervisors, Senior Management and Shareholders Holding 5% or More Shares in the Company

During the reporting period, none of the Company or its Directors, Supervisors, senior management or Shareholders holding 5% or more shares in the Company have experienced any investigation, administrative penalties or informed criticism from CSRC and any public reprimand from the stock exchange, or have been imposed any penalty by other regulatory authorities that would have material impact on the Company's operation.

Significant Events

(X) Review of the Interim Results

PricewaterhouseCoopers, the external auditor of the Company, has reviewed the interim financial report of the Company which was prepared under the disclosure requirements of International Accounting Standards and Hong Kong Listing Rules.

The interim report of the Company has been reviewed and approved by the Audit Committee of the Board of Directors of the Company.

(XI) Publishing the Interim Report

The English and Chinese version of the interim report prepared by the Company in accordance with IFRSs and Hong Kong Listing Rules can be available on the website of Hong Kong Stock Exchange and the Company's website.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF BANK OF ZHESHANG CO., LTD.

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

Introduction

We have reviewed the condensed interim financial information set out on pages 71 to 124, which comprises the condensed statement of financial position of Bank of Zheshang Co., Ltd (the "Bank") as at June 30, 2016 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 August 2016

Condensed Statement of Comprehensive Income

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

		Six months ended June 30,	
	Note	2016	2015
Interest income	3	26,663,469	21,054,413
Interest expense	3	(14,701,633)	(11,950,708)
Net interest income		11,961,836	9,103,705
Fee and commission income	4	3,297,004	1,480,849
Fee and commission expense	4	(90,351)	(44,420)
Net fee and commission income		3,206,653	1,436,429
Net trading gains/(losses)	5	192,450	(246,503)
Net gains on financial investments	6	584,230	224,850
Other operating income	7	19,206	15,053
Operating income		15,964,375	10,533,534
Operating expenses	8	(4,589,093)	(3,199,004)
Impairment losses on assets	10	(5,129,298)	(2,926,226)
Operating profit		6,245,984	4,408,304
Profit before income tax		6,245,984	4,408,304
Income tax expense	11	(1,511,162)	(1,082,628)
Net profit attributable to shareholders of the Bank		4,734,822	3,325,676
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		(468,204)	44,800
Related income tax impact		117,050	(11,200)
Total other comprehensive income, net of tax		(351,154)	33,600
Total comprehensive income attributable to shareholders of the Bank		4,383,668	3,359,276
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	12	0.29	0.29

Shen Renkang
Chairman of Board

Liu Xiaochun
President

Liu Long
Chief Financial Officer

Condensed Statements of Financial Position

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

	Note	June 30, 2016	December 31, 2015
ASSETS			
Cash and balances with central bank	13	103,270,087	87,649,741
Precious metal		–	1,848
Due from banks and other financial institutions	14	45,978,813	76,607,447
Financial assets at fair value through profit or loss	15	13,890,252	10,795,291
Derivative financial assets	16	1,043,314	458,534
Loans and advances to customers	17	398,067,529	335,228,940
Financial investments	18		
– Available-for-sale		60,298,720	49,117,403
– Held-to-maturity		37,252,071	29,042,163
– Debt instruments classified as receivables		509,872,296	431,893,606
Property, plant and equipment	19	2,510,150	2,444,632
Deferred income tax assets	20	2,893,621	2,105,271
Other assets	21	6,557,610	6,305,510
Total assets		1,181,634,463	1,031,650,386
LIABILITIES			
Due to banks and other financial institutions	22	334,622,162	354,657,357
Financial liabilities at fair value through profit or loss	24	12,136,371	500,020
Derivative financial liabilities	16	1,073,354	634,747
Customer deposits	23	644,554,993	516,026,296
Income tax payable		1,136,991	1,594,734
Other liabilities	26	26,422,562	18,644,132
Debt securities issued	25	98,561,446	89,936,036
Total liabilities		1,118,507,879	981,993,322
EQUITY			
Share capital	27	17,959,697	14,509,697
Capital reserve	27	20,151,780	12,181,167
Surplus reserve	28	2,775,091	2,775,091
Statutory general reserve	28	13,242,456	8,241,258
Investment revaluation reserve	29	607,294	958,448
Retained earnings		8,390,266	10,991,403
Total equity		63,126,584	49,657,064
Total liabilities and equity		1,181,634,463	1,031,650,386

Shen Renkang
Chairman of Board

Liu Xiaochun
President

Liu Long
Chief Financial Officer

Condensed Statements of Changes In Equity

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

	Share capital (Note 27)	Capital reserve (Note 27)	Surplus reserve (Note 28)	Statutory general reserve (Note 28)	Investment revaluation reserve (Note 29)	Retained earnings	Total
Balance at January 1, 2016	14,509,697	12,181,167	2,775,091	8,241,258	958,448	10,991,403	49,657,064
Net profit for the period	–	–	–	–	–	4,734,822	4,734,822
Other comprehensive income for the period	–	–	–	–	(351,154)	–	(351,154)
Total comprehensive income	–	–	–	–	(351,154)	4,734,822	4,383,668
Issuance of new shares	3,450,000	7,970,613	–	–	–	–	11,420,613
Appropriation to statutory general reserve	–	–	–	5,001,198	–	(5,001,198)	–
Cash dividend	–	–	–	–	–	(2,334,761)	(2,334,761)
Balance at June 30, 2016	17,959,697	20,151,780	2,775,091	13,242,456	607,294	8,390,266	63,126,584
Balance at January 1, 2015	11,506,872	6,535,858	2,070,022	4,639,490	150,380	8,247,550	33,150,172
Net profit for the year	–	–	–	–	–	7,050,690	7,050,690
Other comprehensive income for the year	–	–	–	–	808,068	–	808,068
Total comprehensive income	–	–	–	–	808,068	7,050,690	7,858,758
Issuance of new shares	3,002,825	5,645,309	–	–	–	–	8,648,134
Appropriation to statutory surplus reserve	–	–	705,069	–	–	(705,069)	–
Appropriation to statutory general reserve	–	–	–	3,601,768	–	(3,601,768)	–
Balance at December 31, 2015	14,509,697	12,181,167	2,775,091	8,241,258	958,448	10,991,403	49,657,064

Shen Renkang
Chairman of Board

Liu Xiaochun
President

Liu Long
Chief Financial Officer

Condensed Statements of Cash Flows

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

		Six months ended June 30,	
	Note	2016	2015
Cash flows from operating activities			
Profit before income tax		6,245,984	4,408,304
Adjustments:			
Depreciation and amortization	8	113,885	101,951
Impairment losses on loans	10	3,666,973	2,539,069
Impairment losses on other assets	10	1,462,325	387,157
Net gains on de-recognition of financial investments		(584,230)	(224,850)
Fair value changes in financial assets at fair value through profit or loss and derivatives		25,256	51,753
Interest income from financial investments	3	(14,363,494)	(8,703,588)
Interest expense from debt securities issued	3	1,721,908	1,461,538
Net change in operating assets and operating liabilities:			
Net increase in restricted deposit balances with central bank		(13,894,809)	(9,775,259)
Net decrease in due from banks and other financial institutions		41,686,624	15,391,970
Net increase in financial assets at fair value through profit or loss		(3,272,449)	(3,463,729)
Net increase in loans and advances to customers		(66,510,166)	(57,270,570)
Net increase in other operating assets		(481,951)	(824,028)
Net change in due to banks and other financial institutions		(20,035,195)	95,548,961
Net increase in customer deposits		128,528,697	82,529,858
Net increase in other operating liabilities		16,797,673	3,828,461
Cash from operating activities before tax		81,107,031	125,986,998
Income tax paid		(2,640,205)	(1,413,732)
Net cash from operating activities		78,466,826	124,573,266
Cash flows from investing activities:			
Purchase of property and equipment, intangible assets and other long-term assets		(149,563)	(77,922)
Interest income from financial investments		14,391,572	8,703,588
Proceeds from disposal and redemption of financial investments		421,577,058	213,376,829
Purchase of financial investments		(520,232,903)	(379,439,628)
Net cash used in investing activities		(84,413,836)	(157,437,133)

Condensed Statements of Cash Flows

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

		Six months ended June 30,	
	Note	2016	2015
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		11,420,613	8,648,134
Proceeds from issuance of debt securities		86,237,502	44,793,918
Cash paid for repayment of debt securities		(78,760,000)	(21,931,040)
Interest paid on debt securities issued		(323,397)	(761,869)
Dividends paid on ordinary shares		(22,665)	–
Net cash from financing activities		18,552,053	30,749,143
Effect of exchange rate changes on cash and cash equivalents			
		178,484	920
Net increase/(decrease) in cash and cash equivalents		12,783,527	(2,113,804)
Cash and cash equivalents at beginning of the period		18,995,308	17,207,750
Cash and cash equivalents at end of the period	35	31,778,835	15,093,946
Net cash flows from operating activities including:			
Interest received		12,685,326	12,111,250
Interest paid		(13,553,113)	(9,629,065)

Shen Renkang
Chairman of Board

Liu Xiaochun
President

Liu Long
Chief Financial Officer

Notes to the Condensed Interim Financial Information

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

1 GENERAL

China Zheshang Bank Co., Ltd. ("the Bank") is a national joint-stock commercial bank which was established in Zhejiang Province, the People's Republic of China (the "PRC") on July 26, 2004 with the approval from China Banking Regulatory Commission ("CBRC").

As of June 30, 2016, the registered capital of the Bank is Renminbi ("RMB") 17,959,696,778.

As of June 30, 2016, the Bank has established 144 branch outlets in 13 provinces (municipalities) of Mainland China, including 38 branches (21 of them are tier-one branches), 1 branch-level specialized institution and 105 sub-branches. The principal activities of the Bank include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business and other banking service as approved by the CBRC.

These financial statements have been approved by the Bank's Board of Directors on August 19, 2016.

2 PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The condensed interim financial information of the Bank has been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" and disclosure requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which should be read in conjunction with the audited financial statements for the year ended December, 2015.

Except as described below, the adoption of the accounting policy and critical accounting estimates and judgements in applying accounting policies of the condensed interim financial information is the same as that adopted in the financial report for the year ended December, 2015.

New and revised IFRSs effective by 1 January 2016 applied by the bank:

Amendment to IFRS 11	<i>Accounting for acquisitions of interests in joint operation</i>
IFRS 14	<i>Regulatory deferral accounts</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of acceptable methods of depreciation and amortization</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or contribution of assets between an investor and its associate or joint venture</i>
Amendments to IFRSs	<i>Annual improvements to IFRSs (2012 – 2014 cycle)</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment entities: applying the consolidation exception</i>
Amendments to IAS 1	<i>Disclosure initiative</i>

The adoption of these new standards and amendments does not have a significant impact on the operating result, comprehensive income, or financial position of the bank.

Notes to the Condensed Interim Financial Information

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

3 NET INTEREST INCOME

	Six months ended June 30,	
	2016	2015
Interest income		
Financial investments	14,363,494	8,703,588
Loans and advances to customers	10,223,271	9,006,779
Due from banks and other financial institutions	1,105,632	2,640,925
Balances with central bank	686,631	560,144
Financial assets at fair value through profit or loss	284,441	142,977
Subtotal	26,663,469	21,054,413
Including: Interest income from impaired financial assets	48,455	50,374
Interest expense		
Due to banks and other financial institutions	(6,782,027)	(5,375,461)
Customer deposits	(6,197,698)	(5,113,709)
Debt securities issued	(1,721,908)	(1,461,538)
Subtotal	(14,701,633)	(11,950,708)
Net interest income	11,961,836	9,103,705
Interest income from listed financial investments (i)	1,860,513	1,198,027
Interest income from unlisted financial investments	12,502,981	7,505,561

- (i) Interest income from listed financial investments is principally derived from debt securities traded within China domestic interbank bond market.

Notes to the Condensed Interim Financial Information

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

4 NET FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2016	2015
Fee and commission income		
Wealth management business	2,260,518	348,845
Credit commitment	283,331	246,044
Underwriting service	249,393	151,452
Agency service	211,410	566,572
Custodian service	71,391	66,366
Settlement business	62,153	33,810
Others	158,808	67,760
Total	3,297,004	1,480,849
Fee and commission expense	(90,351)	(44,420)
Net fee and commission income	3,206,653	1,436,429

5 NET TRADING GAINS/(LOSSES)

	Six months ended June 30,	
	2016	2015
Net gains/(losses) from:		
Exchange differences	157,275	(89,312)
Derivative financial instruments	102,100	(204,389)
Trading financial assets	(66,925)	47,198
Total	192,450	(246,503)

Notes to the Condensed Interim Financial Information

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

6 NET FINANCIAL INVESTMENT GAINS

	Six months ended June 30,	
	2016	2015
Net gains from:		
Net gains arising from de-recognition of available-for-sale	333,548	224,850
Investment gains on the sale of bond	136,308	–
Net gains arising from disposals of discounted bills (i)	99,629	–
Others	14,745	–
Total	584,230	224,850

- (i) The Bank updated its acceptance system and changed the accounting treatment of the gain or loss arising from the disposal of discounted bills in 2016. After the system update, the difference between the unamortized discounted interest income and rediscounted interest costs is recognized as disposal gain or loss, while it was recognized as interest income in prior years.

7 OTHER OPERATING INCOME

	Six months ended June 30,	
	2016	2015
Government grants	2,219	2,263
Gains on disposal of fixed assets	107	187
Other miscellaneous income	16,880	12,603
Total	19,206	15,053

Notes to the Condensed Interim Financial Information

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

8 OPERATING EXPENSES

	Six months ended June 30,	
	2016	2015
Staff costs (including directors and supervisors' emoluments) (Note 9)	2,819,088	1,571,720
General and administrative expenses	885,979	737,781
Business tax and surcharges	552,117	605,827
Rental expenses	200,593	164,294
Depreciation of property, plant and equipment (Note 19)	64,852	59,680
Amortization of long-term prepaid expenses	30,282	25,923
Amortization of land use rights (Note 21(ii))	5,678	5,678
Amortization of intangible assets (Note 21(iii))	13,073	10,670
Donations	2,011	935
Others	15,420	16,496
Total	4,589,093	3,199,004

9 STAFF COSTS (including directors and supervisors' emoluments)

	Six months ended June 30,	
	2016	2015
Salaries and bonuses	2,324,567	1,215,335
Pension costs – Defined contribution plans	256,133	189,992
Housing funds	76,203	53,330
Labor union fee and staff education expenses	49,382	25,253
Other social security and benefit costs	112,803	87,810
Total	2,819,088	1,571,720

Notes to the Condensed Interim Financial Information

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

10 IMPAIRMENT LOSSES ON ASSETS

	Six months ended June 30,	
	2016	2015
Loans and advances to customers (Note 17(b))		
– Collectively assessed	2,132,032	1,648,928
– Individually assessed	1,534,941	890,141
Debt instruments classified as receivables	1,462,387	382,808
Others	(62)	4,349
Total	5,129,298	2,926,226

11 INCOME TAX EXPENSE

	Six months ended June 30,	
	2016	2015
Current income tax	2,182,462	1,429,816
Deferred income tax (Note 20)	(671,300)	(347,188)
Total	1,511,162	1,082,628

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Bank for the respective periods.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Six months ended June 30,	
	2016	2015
Profit before income tax	6,245,984	4,408,304
Tax calculated at a tax rate of 25%	1,561,496	1,102,076
Tax effect arising from income not subject to tax (i)	(76,047)	(28,655)
Tax effect of expenses that are not deductible for tax purposes (ii)	25,713	9,207
Income tax expense	1,511,162	1,082,628

(i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which exceed the tax deduction limits pursuant to the relevant PRC tax regulations.

Notes to the Condensed Interim Financial Information

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

12 BASIC AND DILUTED EARNINGS PER SHARE

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

	Six months ended June 30,	
	2016	2015
Net profit attributable to shareholders of the Bank (in RMB thousands)	4,734,822	3,325,676
Weighted average number of ordinary shares in issue (in thousands)	16,199,257	11,540,052
Basic earnings per share (in RMB yuan)	0.29	0.29

(b) **Diluted earnings per share**

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

13 CASH AND BALANCES WITH CENTRAL BANK

	June 30, 2016	December 31, 2015
Cash	245,018	237,660
Mandatory reserve deposits with central bank (i)	89,447,541	75,555,586
Surplus reserve deposits with central bank (ii)	13,574,285	11,856,106
Fiscal deposits	3,243	389
Total	103,270,087	87,649,741

Notes to the Condensed Interim Financial Information

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

13 CASH AND BALANCES WITH CENTRAL BANK *(continued)*

- (i) The Bank is required to place mandatory reserve deposits and mandatory reserve for forward exchange deposits with the People's Bank of China ("PBOC"). These mandatory reserve are not available for use in the daily business of the Bank.

As of June 30, 2016, the mandatory reserve deposit rates of the Bank were as follows:

	June 30, 2016	December 31, 2015
Mandatory reserve rate for deposits denominated in RMB	14.5%	15%
Mandatory reserve rate for deposits denominated in foreign currencies	5%	5%
Mandatory reserve rate for forward exchange deposits	20%	20%

- (ii) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.
- (iii) The calculation function of the mandatory reserve for forward exchange deposits is the product of the forward exchange contractual amounts and the mandatory reserve rate for forward exchange deposits.

14 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	June 30, 2016	December 31, 2015
Deposits with banks and other financial institutions	43,166,291	32,749,538
Securities purchased under resale agreements	2,011,236	29,051,000
Placements with banks and other financial institutions	801,286	696,097
Notes purchased under resale agreements	—	14,110,812
Total	45,978,813	76,607,447

Notes to the Condensed Interim Financial Information

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

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2016	December 31, 2015
Government bonds		
– Listed outside Hong Kong	820,561	1,369,283
Other debt securities		
– Listed outside Hong Kong	13,069,691	9,426,008
Total	13,890,252	10,795,291

As of June 30, 2016, all financial assets at fair value through profit or loss of the Bank are held for trading.

As of June 30, 2016, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic interbank bond market are included under the category of “Listed outside Hong Kong”.

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

	June 30, 2016	December 31, 2015
Debt securities		
Issuers in the PRC		
– Corporates	7,055,423	4,716,113
– Banks and other financial institutions	6,014,268	4,709,895
– Government	820,561	1,369,283
Total	13,890,252	10,795,291

Notes to the Condensed Interim Financial Information

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

16 DERIVATIVE FINANCIAL INSTRUMENTS

Below listed the nominal value and fair value of derivative financial instruments held for trading:

	Nominal value	Fair value Asset	Liability
June 30, 2016			
Swap contract	329,761,427	1,004,200	(992,269)
Option contract	7,515,543	33,329	(59,925)
Forward contract	1,139,081	5,785	(21,160)
Total	338,416,051	1,043,314	(1,073,354)
December 31, 2015			
Swap contract	170,140,599	441,958	(614,817)
Option contract	324,680	3,424	(1,854)
Forward contract	1,563,225	13,152	(18,076)
Total	172,028,504	458,534	(634,747)

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	June 30, 2016	December 31, 2015
Corporate loans and advances		
– Loans and advances	292,583,089	242,484,549
– Discounted bills	45,415,455	39,827,199
Subtotal	337,998,544	282,311,748
Personal loans and advances		
– Personal business	65,521,684	60,304,266
– Residential mortgage loans	4,945,984	2,204,489
– Others	2,156,281	602,358
Subtotal	72,623,949	63,111,113
Total	410,622,493	345,422,861
Less: allowance for impairment losses		
– Collectively assessed	(9,941,839)	(8,340,569)
– Individually assessed	(2,613,125)	(1,853,352)
Total	(12,554,964)	(10,193,921)
Loans and advances to customers – net	398,067,529	335,228,940

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Movements on allowance for losses on loans and advances to customers listed by assessment method

	Six months ended 30, 2016		Year ended 31, 2015	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the period/year	8,340,569	1,853,352	6,126,006	584,202
Net impairment allowances charged to profit or loss (Note 10)	2,132,032	1,534,941	3,206,972	2,950,371
Unwinding of discount on allowance	(34,309)	(14,146)	(51,290)	(12,186)
Write-offs	(345,210)	(206,763)	(627,127)	(495,705)
Transfer out	(178,762)	(579,799)	(355,558)	(1,215,028)
Recoveries	24,711	25,540	38,570	41,698
Exchange differences	2,808	–	2,996	–
Balance at end of the period/year	9,941,839	2,613,125	8,340,569	1,853,352

(c) Movements on allowance for losses on loans and advances to customers listed by customer category

	Six months ended 30, 2016		Year ended 31, 2015	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Balance at beginning of the period/year	8,592,129	1,601,792	5,413,168	1,297,040
Net impairment allowances charged to profit or loss	3,212,766	454,207	5,655,375	501,968
Unwinding of discount on allowance	(31,073)	(17,382)	(41,124)	(22,352)
Write-offs	(350,417)	(136,870)	(921,206)	(201,626)
Transfer out	(823,247)	–	(1,570,586)	–
Recoveries	28,248	22,003	53,506	26,762
Exchange differences	2,808	–	2,996	–
Balance at end of the period/year	10,631,214	1,923,750	8,592,129	1,601,792

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans listed by assessment method for allowance

June 30, 2016

Loans and advances for which allowance is collectively assessed (i)	Identified impaired loans and advances (ii)			Subtotal	Total
	for which allowance is collectively assessed	for which allowance is individually assessed			
Corporate loans and advances	333,317,744	931,149	3,749,651	4,680,800	337,998,544
Personal loans and advances	71,828,687	795,262	–	795,262	72,623,949
Allowance for impairment losses	(9,183,939)	(757,900)	(2,613,125)	(3,371,025)	(12,554,964)
Loans and advances to customers, net	395,962,492	968,511	1,136,526	2,105,037	398,067,529

December 31, 2015

Loans and advances for which allowance is collectively assessed (i)	Identified impaired loans and advances (ii)			Subtotal	Total
	for which allowance is collectively assessed	for which allowance is individually assessed			
Corporate loans and advances	278,587,473	930,767	2,793,508	3,724,275	282,311,748
Personal loans and advances	62,602,479	508,634	–	508,634	63,111,113
Allowance for impairment losses	(7,723,937)	(616,632)	(1,853,352)	(2,469,984)	(10,193,921)
Loans and advances to customers, net	333,466,015	822,769	940,156	1,762,925	335,228,940

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been identified as impaired.

(ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and have been identified as bearing impairment losses, which are measured either individually or collectively.

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Analysis of loans and advances to customers by industry

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Corporate loans and advances				
Manufacturing	59,516,487	14.49	50,795,800	14.71
Wholesale and retail trade	52,890,851	12.88	36,978,096	10.71
Leasing and commercial services	49,974,779	12.17	37,390,404	10.83
Real estate	43,580,067	10.61	39,878,330	11.55
Construction	24,118,198	5.87	21,415,271	6.20
Administration of water conservancy, environment and public facilities	21,727,853	5.29	21,764,906	6.30
Transportation, storage and postal service	7,415,965	1.81	6,540,180	1.89
Financing	6,113,035	1.49	5,931,548	1.72
Electricity, gas and water production and supply	6,066,505	1.48	3,774,675	1.09
Mining	4,672,682	1.14	3,985,721	1.15
Public administration and social organisations	3,608,560	0.88	2,517,500	0.73
Accommodation and catering	3,296,989	0.80	3,856,737	1.12
Culture, sports and entertainment	2,583,623	0.63	2,185,286	0.63
Information transmission, computer services and software	2,017,086	0.49	1,471,659	0.43
Agriculture, forestry, animal husbandry and fishery	1,606,690	0.39	1,596,036	0.46
Household services and other services	1,480,314	0.36	1,052,171	0.30
Scientific research, technology services and geological prospecting	1,100,135	0.27	527,852	0.15
Education	410,600	0.10	397,152	0.11
Health, social security and social welfare	402,670	0.10	425,225	0.12
Discounted bills	45,415,455	11.06	39,827,199	11.53
Total corporate loans and advances	337,998,544	82.31	282,311,748	81.73
Personal loans and advances				
Personal business	65,521,684	15.96	60,304,266	17.46
Residential mortgage loans	4,945,984	1.20	2,204,489	0.64
Others	2,156,281	0.53	602,358	0.17
Total personal loans and advances	72,623,949	17.69	63,111,113	18.27
Gross amount of loans and advances before allowance for impairment	410,622,493	100.00	345,422,861	100.00

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(f) Analysis of loans and advances to customers by security type (Gross amount)

	June 30, 2016	December 31, 2015
Collateralized loans	161,051,322	149,906,362
Guaranteed loans	108,728,688	90,575,061
Pledged loans	55,380,900	40,865,811
Unsecured loans	40,046,128	24,248,428
Discounted bills	45,415,455	39,827,199
Total	410,622,493	345,422,861

(g) Analysis of loans and advances to customers by geographical areas (Gross amount)

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
East China	225,732,592	54.97	200,043,980	57.91
North China	81,179,174	19.77	65,892,661	19.08
West China	76,834,107	18.71	54,167,679	15.68
South China	26,876,620	6.55	25,318,541	7.33
Total	410,622,493	100.00	345,422,861	100.00

(h) Analysis of loans and advances to customers by overdue and impaired status

	June 30, 2016		December 31, 2015	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Neither overdue nor impaired	332,171,425	71,206,632	277,065,957	61,858,044
Overdue but not impaired	1,146,319	622,055	1,521,516	744,435
Impaired	4,680,800	795,262	3,724,275	508,634
Gross	337,998,544	72,623,949	282,311,748	63,111,113
Less: Collective impairment allowances	(8,018,089)	(1,923,750)	(6,738,777)	(1,601,792)
Individual impairment allowances	(2,613,125)	–	(1,853,352)	–
Total allowance	(10,631,214)	(1,923,750)	(8,592,129)	(1,601,792)
Net	327,367,330	70,700,199	273,719,619	61,509,321

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(i) Loans and advances neither overdue nor impaired

The credit risk of the portfolio of loans and advances that was neither overdue nor impaired can be assessed by reference to the five-category system of CBRC adopted.

	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	325,444,836	6,726,589	332,171,425
Personal loans and advances	70,999,224	207,408	71,206,632
Total	396,444,060	6,933,997	403,378,057

	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	272,786,370	4,279,587	277,065,957
Personal loans and advances	61,673,669	184,375	61,858,044
Total	334,460,039	4,463,962	338,924,001

(j) Loans and advances overdue but not impaired

	June 30, 2016			
	up to 30 days	30-60 days	60-90 days	over 90 days
Corporate loans and advances	384,343	329,115	111,123	321,738
Personal loans and advances	191,090	89,322	64,537	277,106
Total	575,433	418,437	175,660	598,844

	December 31, 2015			
	up to 30 days	30-60 days	60-90 days	over 90 days
Corporate loans and advances	767,367	160,260	327,045	266,844
Personal loans and advances	122,485	116,857	100,067	405,026
Total	889,852	277,117	427,112	671,870

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(k) Loans and advances that is impaired

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, were as follows:

	June 30, 2016	December 31, 2015
Corporate loans and advances	4,680,800	3,724,275
Personal loans and advances	795,262	508,634
Total	5,476,062	4,232,909
Fair value of collaterals		
Corporate loans and advances	3,963,743	2,396,817
Personal loans and advances	1,389,896	789,096
Total	5,353,639	3,185,913

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the current collateral and the market conditions.

(l) Loans and advances rescheduled

Reorganizing activities include approval of debtor repayment plans, modification and deferral of payments. Following reorganizing, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. These policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue to be made. These policies are under continuous review. The rescheduled loan balances of the Bank were as follows:

	June 30, 2016	December 31, 2015
Loans and advances rescheduled	306,693	77,490

Notes to the Condensed Interim Financial Information

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

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(m) Overdue loans and advances by overdue days and security type:

	June 30, 2016				Total
	up to 90 days	90 days to 1 year	1-3 years	over 3 years	
Collateralized	981,250	1,910,938	725,476	5,438	3,623,102
Guaranteed	691,770	1,505,866	595,147	14,639	2,807,422
Pledged	93,785	133,563	13,333	–	240,681
Unsecured	33,200	41,955	400	88,421	163,976
Total	1,800,005	3,592,322	1,334,356	108,498	6,835,181

	December 31, 2015				Total
	up to 90 days	90 days to 1 year	1-3 years	over 3 years	
Collateralized	1,343,494	1,518,289	547,450	14,374	3,423,607
Guaranteed	1,165,748	1,093,870	411,372	–	2,670,990
Pledged	47,320	60,011	480	–	107,811
Unsecured	17,730	3,340	88,421	–	109,491
Total	2,574,292	2,675,510	1,047,723	14,374	6,311,899

Notes to the Condensed Interim Financial Information

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

18 FINANCIAL INVESTMENTS

	June 30, 2016	December 31, 2015
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	59,148,377	48,072,368
– Interbank certificates of deposit	1,125,343	1,020,035
Unlisted		
– Equity securities	25,000	25,000
Total	60,298,720	49,117,403
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	37,252,071	29,042,163
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans sponsored by other financial institutions (i)	468,111,279	251,104,038
– Wealth management products sponsored by banks	43,536,669	177,613,646
– Interbank forfaiting (ii)	897,793	4,786,979
– Debt securities	400,000	–
Total	512,945,741	433,504,663
Less: Allowance for impairment losses	(3,073,445)	(1,611,057)
Debt instruments classified as receivables – Net	509,872,296	431,893,606

Debt instruments traded within China domestic interbank bond market are included under the category of “Listed outside Hong Kong”.

(i) Trust plans and asset management plans by security type:

	June 30, 2016	December 31, 2015
Interbank credit	286,312,610	136,111,168
Pledged by certificates of deposit	98,357,657	67,440,353
Guaranteed by third-party companies	44,302,967	28,194,900
Collateralized by properties	21,244,653	7,572,675
Unsecured	17,893,392	11,784,942
Total	468,111,279	251,104,038

Notes to the Condensed Interim Financial Information

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

18 FINANCIAL INVESTMENTS (continued)

- (ii) Interbank forfaiting are receivables bought by the Bank from the designated negotiating bank under negotiable domestic deferred payment letters of credit. The receivables will be paid irrevocably and unconditionally by the issuing bank of letters of credit on due date.

Financial investments are analyzed by issuer as follows:

	June 30, 2016	December 31, 2015
Available-for-sale financial assets		
By issuer:		
– Banks and other financial institutions	42,433,982	33,052,926
– Government	9,886,205	8,831,872
– Corporates	7,953,533	7,207,605
Subtotal	60,273,720	49,092,403
Equity securities	25,000	25,000
Total	60,298,720	49,117,403
Held-to-maturity investments		
By issuer:		
– Banks and other financial institutions	20,163,996	19,079,407
– Government	16,858,075	9,712,756
– Corporates	230,000	250,000
Total	37,252,071	29,042,163
Debt instruments classified as receivables		
By issuer:		
– Trusts and asset management plans sponsored by non-bank financial institutions	468,111,279	251,104,038
– Wealth management products sponsored by other banks	43,536,669	177,613,646
– Other products sponsored by other banks and non-bank financial institutions	1,297,793	4,786,979
Total	512,945,741	433,504,663
Less: Allowance for impairment losses	(3,073,445)	(1,611,057)
Debt instruments classified as receivables – Net	509,872,296	431,893,606

Notes to the Condensed Interim Financial Information

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

18 FINANCIAL INVESTMENTS (continued)

June 30, 2016					
	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
AAA	4,336,096	5,371,625	735,000	–	10,442,721
AA	1,310,247	1,880,607	700,000	–	3,890,854
A	506,220	506,220	–	–	1,012,440
Unrated (i)	7,563,072	50,733,821	35,817,071	509,872,296	603,986,260
Sub-total	13,715,635	58,492,273	37,252,071	509,872,296	619,332,275
Foreign currency					
A	–	596,040	–	–	596,040
BBB (ii)	167,678	851,862	–	–	1,019,540
BB (ii)	–	333,545	–	–	333,545
Unrated (i)	6,939	–	–	–	6,939
Sub-total	174,617	1,781,447	–	–	1,956,064
Total	13,890,252	60,273,720	37,252,071	509,872,296	621,288,339

December 31, 2015					
	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
AAA	818,892	6,600,905	3,802,801	–	11,222,598
AA	568,380	468,640	700,000	–	1,737,020
A	–	225,137	–	–	225,137
Unrated (i)	9,408,019	41,348,914	24,539,362	430,536,314	505,832,609
Sub-total	10,795,291	48,643,596	29,042,163	430,536,314	519,017,364
Foreign currency					
A	–	448,807	–	–	448,807
Unrated (i)	–	–	–	1,357,292	1,357,292
Sub-total	–	448,807	–	1,357,292	1,806,099
Total	10,795,291	49,092,403	29,042,163	431,893,606	520,823,463

Notes to the Condensed Interim Financial Information

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

18 FINANCIAL INVESTMENTS *(continued)*

- (i) The unrated debt instruments classified as held-for-trading, available-for-sale and held-to-maturity mainly consist of investment and trading securities issued by the PRC Ministry of Finance, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies. The unrated debt instruments classified as receivables mainly include wealth management products sponsored by other banks with the principal guaranteed, interbank forfaiting investment and trust plans or asset management plans, of which the principal and return are mainly guaranteed by other financial institutions or third-party guarantors, or secured by collateral.
- (ii) This actual controllers of the financier of these foreign currency bond are SINO-OCEAN LAND, Huarong (Hong Kong) International Holdings Limited, Shaoxing City Investment, which has good credit in China.

Notes to the Condensed Interim Financial Information

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

19 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipments	Motor vehicles	Construction in progress	Total
Cost					
At January 1, 2016	1,220,590	639,339	130,505	1,183,834	3,174,268
Additions	38	30,421	9,622	91,021	131,102
Disposals	–	(5,744)	(2,603)	–	(8,347)
At June 30, 2016	1,220,628	664,016	137,524	1,274,855	3,297,023
Accumulated depreciation					
At January 1, 2016	(342,451)	(302,717)	(84,468)	–	(729,636)
Charge for the period	(21,833)	(35,622)	(7,397)	–	(64,852)
Disposals	–	5,144	2,471	–	7,615
At June 30, 2016	(364,284)	(333,195)	(89,394)	–	(786,873)
Net book value					
At June 30, 2016	856,344	330,821	48,130	1,274,855	2,510,150
Cost					
At January 1, 2015	1,218,023	524,418	118,910	586,481	2,447,832
Additions	547	120,812	20,614	600,080	742,053
Transfer in/(out)	2,120	607	–	(2,727)	–
Disposals	–	(6,460)	(9,019)	–	(15,479)
Other transfer out	(100)	(38)	–	–	(138)
At December 31, 2015	1,220,590	639,339	130,505	1,183,834	3,174,268
Accumulated depreciation					
At January 1, 2015	(298,947)	(245,843)	(78,533)	–	(623,323)
Charge for the year	(43,504)	(62,817)	(13,962)	–	(120,283)
Disposals	–	5,943	8,027	–	13,970
At December 31, 2015	(342,451)	(302,717)	(84,468)	–	(729,636)
Net book value					
At December 31, 2015	878,139	336,622	46,037	1,183,834	2,444,632

Notes to the Condensed Interim Financial Information

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

20 DEFERRED INCOME TAXES

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

	At January 1, 2016	Charged to profit or loss	Charged to other comprehensive income	At June 30, 2016
Deferred income tax assets:				
Impairment allowances for assets	1,891,140	694,165	–	2,585,305
Staff Salary and welfare payable	566,000	(44,084)	–	521,916
Fair value changes of derivative instruments	44,054	(37,980)	–	6,074
Others	418	3,057	–	3,475
Subtotal	2,501,612	615,158	–	3,116,770
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(65,012)	44,296	–	(20,716)
Fair value changes of financial assets available for sale	(319,483)	–	117,050	(202,433)
Others	(11,846)	11,846	–	–
Subtotal	(396,341)	56,142	117,050	(223,149)
Net deferred income tax	2,105,271	671,300	117,050	2,893,621

Notes to the Condensed Interim Financial Information

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

20 DEFERRED INCOME TAXES *(continued)*

	At January 1, 2015	Charged to profit or loss	Charged to other comprehensive income	At December 31, 2015
Deferred income tax assets:				
Impairment allowances for assets	984,145	906,995	–	1,891,140
Staff Salary and welfare payable	302,208	263,792	–	566,000
Fair value changes of derivative instruments	23,374	20,680	–	44,054
Others	69	349	–	418
Subtotal	1,309,796	1,191,816	–	2,501,612
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(8,391)	(56,621)	–	(65,012)
Fair value changes of financial assets available for sale	(50,127)	–	(269,356)	(319,483)
Others	–	(11,846)	–	(11,846)
Subtotal	(58,518)	(68,467)	(269,356)	(396,341)
Net deferred income tax	1,251,278	1,123,349	(269,356)	2,105,271

Notes to the Condensed Interim Financial Information

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

21 OTHER ASSETS

	June 30, 2016	December 31, 2015
Interest receivable (i)	3,636,842	4,095,911
Land use rights (ii)	376,825	382,503
Advance payments	335,960	173,840
Long-term prepaid expenses	300,672	321,622
Other receivables	298,061	706,794
Less: impairment allowance	(32,535)	(31,353)
Guaranteed deposits paid	192,235	24,701
Funds to be settled	174,039	86,475
Intangible assets (iii)	156,882	160,826
Foreclosed assets	33,960	33,960
Others	1,084,669	350,231
Total	6,557,610	6,305,510

(i) Interest receivable

	June 30, 2016	December 31, 2015
Financial investments and financial assets at fair value through profit or loss	2,493,179	2,521,257
Loans and advances to customers	884,758	788,290
Due from banks, other financial institutions, and central bank	258,905	786,364
Total	3,636,842	4,095,911

Notes to the Condensed Interim Financial Information

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

21 OTHER ASSETS *(continued)*

(ii) Land use rights

	June 30, 2016	December 31, 2015
Cost		
Balance at beginning of the period/year	437,162	437,162
Additions	–	–
Balance at end of the period/year	437,162	437,162
Accumulated amortization		
Beginning of the period/year	(54,659)	(43,303)
Additions	(5,678)	(11,356)
End of the period/year	(60,337)	(54,659)
Net book value		
End of the period/year	376,825	382,503

The net book value of land use rights is analyzed based on the remaining terms of the leases as follows:

	June 30, 2016	December 31, 2015
Held outside Hong Kong		
– on medium-term lease (10-50 years)	376,825	382,503

Notes to the Condensed Interim Financial Information

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

21 OTHER ASSETS *(continued)*

(iii) Intangible assets

Intangible assets of the Bank are mainly computer software.

	June 30, 2016	December 31, 2015
Cost		
Balance at beginning of the period/year	270,735	216,703
Additions	9,129	54,032
Balance at end of the period/year	279,864	270,735
Accumulated amortization		
Balance at beginning of the period/year	(109,909)	(87,807)
Additions	(13,073)	(22,102)
Balance at end of the period/year	(122,982)	(109,909)
Net book value		
End of the period/year	156,882	160,826

22 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	June 30, 2016	December 31, 2015
Deposits from banks and other financial institutions	300,407,517	324,194,889
Placements from banks and other financial institutions	16,014,066	2,857,924
Securities sold under repurchase agreements	13,650,000	20,671,000
Notes sold under repurchase agreements	4,550,579	6,933,544
Total	334,622,162	354,657,357

Notes to the Condensed Interim Financial Information

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

23 CUSTOMER DEPOSITS

	June 30, 2016	December 31, 2015
Corporate demand deposits	241,366,700	179,985,599
Corporate time deposits	373,324,068	310,115,626
Individual demand deposits	6,755,983	6,381,855
Individual time deposits	17,211,885	15,298,848
Other deposits	5,896,357	4,244,368
Total	644,554,993	516,026,296
Including: Pledged deposits held as collateral	91,554,127	75,174,823

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2016	December 31, 2015
Financial liabilities designated as fair value through profit or loss:		
Financial liabilities related to precious metal contracts (i)	12,003,319	500,020
Transaction financial liabilities:		
Short position of securities held for trading	133,052	–
Total	12,136,371	500,020

- (i) The bank borrows funds through the deal of precious metals, which means borrowing gold through interbank borrowing and then selling it in the spot trading market. The bank has set up formal documents to clarify that the portfolio of the financial liabilities is managed and evaluated on a fair value basis. And its information is provided internally on that basis to the management.

Notes to the Condensed Interim Financial Information

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

25 DEBT SECURITIES ISSUED

	June 30, 2016	December 31, 2015
Fixed rate subordinated debts – 2021 (i)	3,250,000	3,250,000
Fixed rate financial bonds – 2018 (ii)	1,500,000	1,500,000
Fixed rate financial bonds – 2019 (iii)	4,500,000	4,500,000
Fixed rate financial bonds – 2020 (iv)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (v)	10,000,000	–
Interbank certificates of deposit	74,311,446	75,686,036
Total	98,561,446	89,936,036

- (i) Fixed-rate subordinated debt of RMB 3.25 billion was issued on November 25, 2011, with a maturity of 10 years and a fixed coupon rate of 6.50% per annum payable annually. The Bank has an option to redeem all the debts at face value on November 28, 2016.
- (ii) Fixed-rate financial bond of RMB 1.5 billion was issued on September 11, 2013, with a maturity of 5 years and a fixed coupon rate of 5.00% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iii) Fixed-rate financial bond of RMB 4.5 billion was issued on March 10, 2014, with a maturity of 5 years and a fixed coupon rate of 5.70% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iv) Fixed-rate financial bond of RMB 5 billion was issued on December 24, 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (v) Fixed-rate financial bond of RMB 10 billion was issued on February 24, 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.

As of June 30, 2016, there are no defaults on principal and interest or other breaches to the agreements with respect to debt, bonds or interbank certificates of deposit.

Notes to the Condensed Interim Financial Information

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

26 OTHER LIABILITIES

	June 30, 2016	December 31, 2015
Interest payable (i)	10,102,196	10,424,981
Settlement fund	9,515,074	1,758,182
Salary and welfare payable (ii)	3,675,427	3,397,286
Dividends payable	2,345,738	33,642
Sundry tax payables	524,241	427,893
Promissory note and certified check issued	15,648	2,424,554
Deferred income	1,420	4,036
Others	242,818	173,558
Total	26,422,562	18,644,132

(i) Interest payable

	June 30, 2016	December 31, 2015
Customer Deposits	7,420,081	6,834,399
Due to banks and other financial institutions	2,125,245	3,284,315
Debt securities issued	556,870	306,267
Total	10,102,196	10,424,981

(ii) Salary and welfare payable

	June 30, 2016	December 31, 2015
Salary, bonus and allowance	3,636,584	3,348,951
Labor union fee and staff education expenses	38,843	48,335
Total	3,675,427	3,397,286

Notes to the Condensed Interim Financial Information

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

27 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid common shares, with par value of RMB 1 per share. The Bank's number of shares is as follows:

	June 30, 2016	December 31, 2015
Number of shares authorized, issued and fully paid at par value (in thousands) (i)	17,959,697	14,509,697

- (i) On March 30, 2016, the Bank listed on Hong Kong Stock Exchange, and exercised all its Green Shoe Option on April 19, 2016. The total number of H shares issued globally this time was 3,795,000,000 (including 3,450,000,000 new H shares and 345,000,000 shares sold by selling shareholders). The offering price was HK\$3.96 per share, each share at the par value of 1.00 RMB.

Generally, transactions of the following nature were recorded in the capital reserve:

- Share premium arising from the issuance of shares at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

Capital reserve can be utilized for increasing paid-in capital as approved by the shareholders.

As of June 30, 2016, the Bank's capital reserve is shown as follows:

	June 30, 2016	December 31, 2015
Share premium (ii)	20,151,780	12,181,167

- (ii) The bank recognized the share premium after deducting direct issuing cost (including underwriting fees and some other professional agency fees) as capital reserve.

Notes to the Condensed Interim Financial Information

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

28 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2016	2,775,091	8,241,258
Appropriation to statutory general reserve	–	5,001,198
Balance at June 30, 2016	2,775,091	13,242,456
Balance at January 1, 2015	2,070,022	4,639,490
Appropriation to statutory surplus reserve	705,069	–
Appropriation to statutory general reserve	–	3,601,768
Balance at December 31, 2015	2,775,091	8,241,258

(i) Surplus reserve

Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.

(ii) Statutory general reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement"), effective on July 1, 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

Notes to the Condensed Interim Financial Information

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

29 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2016	1,277,931	(319,483)	958,448
Fair value changes in available-for-sale	(134,656)	33,663	(100,993)
Less: Amounts previously recognized in other comprehensive income reclassified to profit or loss	(333,548)	83,387	(250,161)
Balance at June 30, 2016	809,727	(202,433)	607,294
Balance at January 1, 2015	200,507	(50,127)	150,380
Fair value changes in available-for-sale	1,407,765	(351,941)	1,055,824
Less: Amounts previously recognized in other comprehensive income reclassified to profit or loss	(330,341)	82,585	(247,756)
Balance at December 31, 2015	1,277,931	(319,483)	958,448

30 DIVIDENDS

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

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

At the Shareholders Meeting of the bank held on June 15, 2016, *The 2015 Annual Profit Distribution Plan of China Zheshang Bank Co., Ltd* was approved. The Bank proposed a cash dividend of RMB1.3 (including tax) for every 10 shares, a total cash dividend of RMB2.335 billion based on the 17,959,696,778 of shares in total after the initial exercise of Green Shoe option.

Notes to the Condensed Interim Financial Information

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

31 UNCONSOLIDATED STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are wealth management products sponsored and managed by the Bank acting as an agent. Based on the analysis and research of the potential target customers, the Bank designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Bank receives commission income as the manager of these wealth management products. The Bank considered its variable returns from its involvement with the structured entities are insignificant and hence it does not consolidate these structured entities.

As of June 30, 2016, the balance of unconsolidated wealth management products sponsored and managed by the Bank in terms of size amounted to RMB 242,560 million (December 31, 2015: RMB 213,856 million). The Bank's maximum exposure to these unconsolidated structured presented by entities is management fee income which amount is insignificant.

During the period ended June 30, 2016, the Bank did not provide financial or other support to these structured entities.

(b) Unconsolidated structured entities invested by the Bank

As of June 30, 2016, the Bank invests in a number of unconsolidated structured entities mainly consisting of wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties. All our investments in wealth management products issued by other commercial banks were principal-protected.

During the periods ended June 30, 2016, the Bank did not provide financial or other support to these structured entities.

The table below sets out the carrying value and the Bank's maximum exposure (including interest receivable) to these unconsolidated structured entities.

At June 30, 2016	Carrying value	Maximum exposure to loss
Debt instruments classified as receivables		
– Trust plans and asset management plans	468,111,279	468,888,294
– Wealth management products sponsored by banks	43,536,669	43,536,669

Notes to the Condensed Interim Financial Information

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

31 UNCONSOLIDATED STRUCTURED ENTITIES *(continued)*

(b) Unconsolidated structured entities invested by the Bank *(continued)*

At December 31, 2015	Carrying value	Maximum exposure to loss
Debt instruments classified as receivables		
– Trust plans and asset management plans	251,104,038	251,735,711
– Wealth management products sponsored by banks	177,613,646	177,613,646

32 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and other credit commitments

	June 30, 2016	December 31, 2015
Acceptances	131,352,319	122,164,834
Letters of credit issued	103,204,745	88,744,036
Letters of guarantee issued	42,584,919	43,030,538
Unused credit card limit	5,475,784	2,806,182
Loan commitments	4,302,500	5,388,500
Total	286,920,267	262,134,090

(b) Capital commitment

	June 30, 2016	December 31, 2015
Authorized but not contracted	1,997,167	97,083
Contracted but not yet incurred	164,675	375,839
Total	2,161,842	472,922

Notes to the Condensed Interim Financial Information

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

32 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

(c) Operating leasing commitment

The future minimum lease payments under irrevocable rental contract are listed as follows:

	June 30, 2016	December 31, 2015
Within one year	396,290	370,139
Between one year and five years	1,286,647	1,195,678
More than five years	631,017	510,769
Total	2,313,954	2,076,586

(d) Legal proceedings

As of June 30, 2016 and December 31 2015, the management of the Bank believes the legal proceedings initiated against the Bank would not have a material impact on the Bank's the financial position or operations.

33 ASSETS PLEDGED

	June 30, 2016	December 31, 2015
Bonds	28,283,046	35,095,222
Bills	4,560,506	6,937,716
Total	32,843,552	42,032,938

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, the pledge business of treasury's cash management, entrusted loans business of foreign exchange.

Notes to the Condensed Interim Financial Information

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

34 CREDIT RISK-WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	June 30, 2016	December 31, 2015
Financial guarantees and credit related commitments	71,087,414	73,269,343

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

35 CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	June 30, 2016	December 31, 2015
Cash	245,018	237,660
Surplus deposit reserve with central bank	13,574,285	11,856,106
Deposits and placements with banks and other financial institutions	17,959,532	6,901,542
Total	31,778,835	18,995,308

Notes to the Condensed Interim Financial Information

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

36 RELATED PARTY TRANSACTIONS

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

(a) Transactions with the main related party

Name of Shareholders	Shareholding Ratio (%)	
	June 30, 2016	December 31, 2015
Zhejiang Provincial Financial Holdings Co., Ltd.	14.79	19.96

As of June 30, 2016, Zhejiang Provincial Financial Holdings Co., Ltd. ("ZJFH")'s balance of deposits with the Bank was RMB742,149 thousand. For the period ended of June 30, 2016, the amount of interest expense for ZJFH's deposit with the Bank was RMB 3,120 thousand.

(b) Transactions with other related parties

- (i) The amounts and relevant interest rate spectrum of transactions with other shareholders (including their subsidiaries) who have influence over financial and operating policies of the bank and with the Bank's directors, supervisors and senior management and their family members are as follows:

	June 30, 2016	December 31, 2015
Customer deposits	6,369,645	7,940,810
Loans and advances to customers	811,260	1,006,560
Acceptances	122,606	166,590
Letters of guarantee	73,000	—

	June 30, 2016	December 31, 2015
Customer deposits	0.35%-5.10%	0.35%-5.10%
Loans and advances to customers	4.35%-5.34%	4.35%-6.42%

	Six months ended June 30,	
	2016	2015
Interest expense	241,109	3,190
Interest income	29,943	28,170
Fee and commission income	333	51

Notes to the Condensed Interim Financial Information

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

36 RELATED PARTY TRANSACTIONS *(continued)*

(c) Government related entities

The transactions between the Bank and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

(d) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank.

The Bank enters into banking transactions with key management personnel in the normal course of business. During the period ended June 30, 2016 the Bank had no material transactions with key management personnel (six months ended June 30, 2015: nil).

37 SEGMENT ANALYSIS

(a) Business segments

The Bank manages the business from both business and geographic perspectives. From the business perspective, the Bank provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services.
- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.
- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments and financial derivatives business for proprietary trading or on behalf of customers.
- Others – Others comprise components of the Bank that are not attributable to any of the above segments, along with services that could not be allocated on a reasonable basis.

Notes to the Condensed Interim Financial Information

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

37 SEGMENT ANALYSIS *(continued)*

(a) Business segments *(continued)*

	For the six months ended June 30, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	12,074,921	2,134,837	12,453,711	–	26,663,469
External interest expense	(5,997,329)	(200,369)	(8,503,935)	–	(14,701,633)
Inter-segment net interest income/(expenses)	631,686	(628,222)	(3,464)	–	–
Net interest income	6,709,278	1,306,246	3,946,312	–	11,961,836
Net fee and commission income	833,297	27,309	2,346,047	–	3,206,653
Net trading gains	–	–	192,450	–	192,450
Net gains on financial investments	250,682	–	333,548	–	584,230
Other operating income	172	1,473	–	17,561	19,206
Operating income	7,793,429	1,335,028	6,818,357	17,561	15,964,375
Operating expenses	(2,583,372)	(475,704)	(1,523,921)	(6,096)	(4,589,093)
– Depreciation and amortization	(55,492)	(8,967)	(49,388)	(38)	(113,885)
Impairment losses on assets	(4,674,090)	(455,208)	–	–	(5,129,298)
Profit before income tax	535,967	404,116	5,294,436	11,465	6,245,984
Capital expenditure	69,667	9,513	70,122	261	149,563

	June 30, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	549,056,598	74,976,481	552,651,655	2,056,108	1,178,740,842
Unallocated assets	–	–	–	–	2,893,621
Total assets	–	–	–	–	1,181,634,463
Segment liabilities	(629,896,100)	(24,668,548)	(451,832,894)	(12,110,337)	(1,118,507,879)

Notes to the Condensed Interim Financial Information

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

37 SEGMENT ANALYSIS (continued)

(a) Business segments (continued)

	For the six months ended June 30, 2015				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	9,086,482	1,948,410	10,019,521	–	21,054,413
External interest expense	(4,831,520)	(282,189)	(6,836,999)	–	(11,950,708)
Inter-segment net interest income/(expenses)	1,233,056	(633,780)	(599,276)	–	–
Net interest income	5,488,018	1,032,441	2,583,246	–	9,103,705
Net fee and commission income	960,511	5,147	470,771	–	1,436,429
Net trading losses	(28,974)	–	(217,529)	–	(246,503)
Net gains on financial investments	–	–	224,850	–	224,850
Other operating income	–	890	–	14,163	15,053
Operating income	6,419,555	1,038,478	3,061,338	14,163	10,533,534
Operating expenses	(2,159,802)	(398,460)	(633,192)	(7,550)	(3,199,004)
– Depreciation and amortization	(59,575)	(9,519)	(32,792)	(65)	(101,951)
Impairment losses on assets	(2,682,746)	(243,480)	–	–	(2,926,226)
Profit before income tax	1,577,007	396,538	2,428,146	6,613	4,408,304
Capital expenditure	34,559	5,234	38,032	97	77,922

	June 30, 2015				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	392,907,244	59,504,900	432,388,276	1,107,892	885,908,312
Unallocated assets	–	–	–	–	1,587,266
Total assets	–	–	–	–	887,495,578
Segment liabilities	(432,841,240)	(21,224,668)	(385,416,098)	(2,855,990)	(842,337,996)

Notes to the Condensed Interim Financial Information

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

37 SEGMENT ANALYSIS *(continued)*

(b) Geographical segments

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

- “Eastern China” refers to the head office and the following areas serviced by the tier-one branches of the Bank: Head Office, Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan;
- “Northern China” refers to the following areas serviced by the tier-one branches of the Bank: Beijing, Tianjin, Jinan, Shenyang;
- “Southern China” refers to the following areas serviced by the tier-one branches of the Bank: Shenzhen, Guangzhou; and
- “Western China” refers to the following areas serviced by the tier-one branches of the Bank: Chengdu, Xi’an, Lanzhou, Chongqing, Wuhan.

	For the six months ended June 30, 2016					
	East China	North China	South China	Western China	Elimination	Total
External interest income	16,641,065	4,768,412	1,204,278	4,049,714	–	26,663,469
External interest expense	(9,480,628)	(2,837,638)	(689,292)	(1,694,075)	–	(14,701,633)
Inter-segment net interest income/(expenses)	350,369	87,481	76,020	(513,870)	–	–
Net interest income	7,510,806	2,018,255	591,006	1,841,769	–	11,961,836
Net fee and commission income	2,907,063	149,747	67,046	82,797	–	3,206,653
Net trading gains	192,450	–	–	–	–	192,450
Net gains on financial investments	382,998	153,913	41,158	6,161	–	584,230
Other operating income	14,319	3,647	188	1,052	–	19,206
Operating income	11,007,636	2,325,562	699,398	1,931,779	–	15,964,375
Operating expenses	(3,114,545)	(686,145)	(214,874)	(573,529)	–	(4,589,093)
– Depreciation and amortization	(86,881)	(14,074)	(3,002)	(9,928)	–	(113,885)
Impairment losses on assets	(2,614,818)	(1,183,457)	(77,386)	(1,253,637)	–	(5,129,298)
Profit before income tax	5,278,273	455,960	407,138	104,613	–	6,245,984
Capital expenditure	83,615	344	1,684	63,920	–	149,563

Notes to the Condensed Interim Financial Information

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

37 SEGMENT ANALYSIS (continued)

(b) Geographical segments (continued)

	June 30, 2016					
	East China	North China	South China	Western China	Elimination	Total
Segment assets	1,066,870,813	233,697,621	69,280,741	188,858,377	(379,966,710)	1,178,740,842
Unallocated assets	–	–	–	–	–	2,893,621
Total assets	–	–	–	–	–	1,181,634,463
Segment liabilities	(1,001,928,510)	(233,409,916)	(68,950,167)	(188,442,503)	374,223,217	(1,118,507,879)

	For the six months ended June 30, 2015					
	East China	North China	South China	Western China	Elimination	Total
External interest income	13,037,960	4,400,881	507,248	3,108,324	–	21,054,413
External interest expense	(7,519,075)	(2,480,917)	(493,235)	(1,457,481)	–	(11,950,708)
Inter-segment net interest income/(expenses)	167,969	(128,624)	193,006	(232,351)	–	–
Net interest income	5,686,854	1,791,340	207,019	1,418,492	–	9,103,705
Net fee and commission income	953,941	211,336	31,133	240,019	–	1,436,429
Net trading gains/(losses)	(215,571)	(32,546)	34	1,580	–	(246,503)
Net gains on financial investments	224,850	–	–	–	–	224,850
Other operating income	10,028	3,161	80	1,784	–	15,053
Operating income	6,660,102	1,973,291	238,266	1,661,875	–	10,533,534
Operating expenses	(2,072,643)	(617,839)	(101,576)	(406,946)	–	(3,199,004)
– Depreciation and amortization	(79,061)	(13,120)	(1,730)	(8,040)	–	(101,951)
Impairment losses on assets	(2,006,301)	(405,156)	(100,773)	(413,996)	–	(2,926,226)
Profit before income tax	2,581,158	950,296	35,917	840,933	–	4,408,304
Capital expenditure	71,456	6,111	97	258	–	77,922

	June 30, 2015					
	East China	North China	South China	Western China	Elimination	Total
Segment assets	856,579,863	211,380,842	43,702,028	134,777,129	(360,531,550)	885,908,312
Unallocated assets	–	–	–	–	–	1,587,266
Total assets	–	–	–	–	–	887,495,578
Segment liabilities	(815,938,920)	(210,042,047)	(43,641,013)	(133,247,566)	360,531,550	(842,337,996)

Notes to the Condensed Interim Financial Information

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

38 UNSECURED WEALTH MANAGEMENT PRODUCTS

The Bank issues and manages unsecured wealth management products to institutional and individual investors. The funds raised from the institutional and individual investors are mainly invested in the open market bonds, trust plans and directional asset management plans.

The Bank assesses its control on the unsecured wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of trust plans and the performance of directional asset management plans. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

As at June 30, 2016, the balance of funds raised from the unsecured wealth management products were RMB 242,560,136 thousand (31 December 2015: RMB 213,855,837 thousand). The Bank has recognized net fee and commission income from unsecured wealth management products with the amount of RMB 2,260,518 thousand for the six months ended June 30, 2016 through provision of asset management service.

39 FINANCIAL RISK MANAGEMENT

Overview

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is responsible for establishing the overall risk appetite of the Bank, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Bank is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

Notes to the Condensed Interim Financial Information

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

40 ENTRUSTED LOANS

The Bank grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements.

	June 30, 2016	December 31, 2015
Entrusted loans	68,714,107	48,680,706

41 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in interbank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables, due to banks and other financial institutions, deposits from customers and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value on June 30, 2016, including financial investments-held-to-maturity, financial investments-debt instruments classified as receivables and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

Notes to the Condensed Interim Financial Information

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

41 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

(b) Financial instruments not measured at fair value *(continued)*

	Carrying value	June 30, 2016			Total
		Level 1	Fair value Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	37,252,071	–	38,017,240	–	38,017,240
Financial investments					
– Debt instruments classified as receivables	509,872,296	–	430,103,629	80,848,008	510,951,637
Total	547,124,367	–	468,120,869	80,848,008	548,968,877
Financial liabilities					
Debt securities issued	(98,561,446)	–	(98,335,569)	–	(98,335,569)

	Carrying value	December 31, 2015			Total
		Level 1	Fair value Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	29,042,163	–	29,955,988	–	29,955,988
Financial investments					
– Debt instruments classified as receivables	431,893,606	–	382,418,387	50,917,921	433,336,308
Total	460,935,769	–	412,374,375	50,917,921	463,292,296
Financial liabilities					
Debt securities issued	(89,936,036)	–	(89,538,488)	–	(89,538,488)

Notes to the Condensed Interim Financial Information

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

41 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

(b) Financial instruments not measured at fair value *(continued)*

(i) *Held-to-maturity investments and debt instruments classified as receivables*

Held-to-maturity investments and debt instruments classified as receivables whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received are based on observable yield curves, the fair value measurement will be included in level 3.

(ii) *Debt securities issued*

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

(c) Financial instruments measured at fair value

June 30, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	13,890,252	–	13,890,252
Derivative financial assets	–	1,043,314	–	1,043,314
Financial investments – Available-for-sale	–	60,273,720	25,000	60,298,720
– Debt securities	–	59,148,377	–	59,148,377
– Interbank certificates of deposit	–	1,125,343	–	1,125,343
– Equity investment	–	–	25,000	25,000
Total	–	75,207,286	25,000	75,232,286
Financial liabilities at fair value through profit or loss	–	(12,136,371)	–	(12,136,371)
Derivative financial liabilities	–	(1,073,354)	–	(1,073,354)
Total	–	(13,209,725)	–	(13,209,725)

Notes to the Condensed Interim Financial Information

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

41 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

(c) Financial instruments measured at fair value *(continued)*

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	10,795,291	–	10,795,291
Derivative financial assets	–	458,534	–	458,534
Financial investments – Available-for-sale	–	49,092,403	25,000	49,117,403
– Debt securities	–	48,072,368	–	48,072,368
– Interbank certificates of deposit	–	1,020,035	–	1,020,035
– Equity investment	–	–	25,000	25,000
Total	–	60,346,228	25,000	60,371,228
Financial liabilities at fair value through profit or loss	–	(500,020)	–	(500,020)
Derivative financial liabilities	–	(134,727)	–	(134,727)
Total	–	(634,747)	–	(634,747)

The Bank uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Bank include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

Subsequent Financial Statements

Up to the date of this report, the Bank had no material events for disclosure after June 30, 2016.