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CHINA ZHESHANG BANK CO., LTD.

浙商银行股份有限公司

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

(Stock Code: 2016)

(Stock Code of Preference Shares: 4610)

2019 INTERIM RESULTS ANNOUNCEMENT

The board of directors of China Zhesang Bank Co., Ltd. (the “**Bank**”) hereby announces the unaudited interim results of the Bank for the six months ended June 30, 2019. This announcement, containing the full text of the 2019 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.hkexnews.hk). In the event of any discrepancies in interpretations between the English and Chinese texts, the Chinese version shall prevail.

Printed version of the 2019 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.hkexnews.hk).

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

Hangzhou, the PRC
August 9, 2019

As at the date of this announcement, the executive directors of the Bank are Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun; the non-executive directors are Mr. Huang Zhiming, Mr. Wei Dongliang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting and Mr. Xia Yongchao; the independent non-executive directors are Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai.

IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a several and joint basis.

This interim report was approved at the sixth meeting of the 5th session of the Board of the Company on August 9, 2019. The Company has 17 Directors, among which 14 Directors attended the meeting in person, and Ms. Lou Ting, Mr. Tong Benli and Mr. Liu Pak Wai had authorized Ms. Gao Qinhong, Mr. Zhou Zhifang and Mr. Zhou Zhifang 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. Nine Supervisors of the Company attended the meeting.

The Company neither declares interim dividend for 2019 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 subject to rounding adjustment. Any discrepancies in any table between totals and sums of the amounts are due to rounding.

This report is prepared in Chinese and English, respectively, and in the event of any discrepancies in interpretations between the English and Chinese text, the Chinese version shall prevail.

The interim financial report for 2019 of the Company is unaudited.

Shen Renkang (Chairman of the Bank), Xu Renyan (President of the Bank), Liu Long (Principal in charge of Finance) and Jing Feng (Director of the Financial Department) warrant that the financial report in this report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed “Management Discussion and Analysis – Risk Management” in this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters, such as future plans of the Company in this report do not constitute substantive undertakings of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and undertakings.

DEFINITIONS

“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“Articles of Association”:	the articles of association of China Zheshang Bank Co., Ltd.
“Shareholder(s)”:	the shareholder(s) of ordinary shares of the Company
“Board” or “Board of Directors”:	the board of directors of the Company
“Board of Supervisors”:	the board of supervisors of the Company
“Senior Management”:	the Senior Management of the Company
“Director(s)”:	the director(s) of the Company
“Supervisor(s)”:	the supervisor(s) of the Company
“CBIRC”:	China Banking and Insurance Regulatory Commission
“CSRC”:	China Securities Regulatory Commission
“Hong Kong Stock Exchange”:	The Stock Exchange of Hong Kong Limited
“Company Law”:	The Company Law of the People’s Republic of China
“Commercial Banking Law”:	The Commercial Banking Law of the People’s Republic of China
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on 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
“Domestic Shares”:	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or 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
“Offshore Preference Shares”:	the US\$2,175,000,000 Non-Cumulative Perpetual Offshore Preference Shares (Stock Code: 4610) at the dividend yield of 5.45% issued by the Company on March 29, 2017
“Share(s)”:	Domestic Shares and H Shares of the Company
“RMB”:	Renminbi, the lawful currency of the PRC
“HK\$” or “Hong Kong dollars” or “HK dollars”:	Hong Kong dollars, the lawful currency of Hong Kong
“Zheyin Financial Leasing”:	Zhejiang Zheyin Financial Leasing Co., Ltd., a subsidiary of the Company, in which the Company holds 51% of equity interest
“Group”:	the Company and its subsidiary

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 address:** No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC

Principal office address: No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC

Postcode: 310006

E-mail: ir@czbank.com

Website: www.czbank.com

Customer service hotline: 95527

Tel for investor relations management: 86-571-88268966

Fax: 86-571-87659826
- 4. Principal place of business in Hong Kong:** 15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong
- 5. Authorized representatives:** Xu Renyan, Liu Long
- 6. Secretary to the Board:** Liu Long

Company secretary: Liu Long
- 7. H Shares**

Stock exchange where the securities are listed: Hong Kong Stock Exchange

Stock abbreviation: CZBANK

Stock code: 2016

Offshore Preference Shares

Stock exchange where the securities are listed: Hong Kong Stock Exchange

Stock abbreviation: CZB 17USDPREF

Stock code: 4610

- 8. Share registrar:**
H Shares: Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17/F, 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
- 9. Legal advisers:**
As to Mainland PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
- 10. Accounting firms engaged by the Company:**
Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
Office address: 11/F, PricewaterhouseCoopers Center, Link Square 2, No. 202 Hubin Road, Shanghai
Signing certificated accountants: Zhu Yu, Ye Jun
- International auditor:** PricewaterhouseCoopers
Office address: 22/F, Prince's Building, Central, Hong Kong
- 11. Place for inspection of this report:** Office of the Board of the Company
(No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC)
- Website of the Hong Kong Stock Exchange for publishing this report:** www.hkexnews.hk
- 12. Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004

FINANCIAL SUMMARY

(The financial data and indicators set forth in this interim report were prepared in accordance with International Financial Reporting Standards and presented in RMB, unless otherwise specified)

KEY FINANCIAL DATA AND INDICATORS

Operating results (RMB' 000)

	January to June 2019	January to June 2018	Period- on-period Increase/ Decrease (%)
Operating income	22,573,635	18,596,060	21.39
Profit before income tax	8,744,135	7,945,718	10.05
Net profit attributable to shareholders of the Bank	<u>7,528,002</u>	<u>6,485,825</u>	<u>16.07</u>

Scale indicators (at the end of the reporting period, RMB' 000)

	June 30, 2019	December 31, 2018	Increase/ Decrease as compared with the end of last year (%)
Total assets	1,737,269,251	1,646,694,744	5.50
Total loans and advances to customers	932,702,427	865,232,669	7.80
Total liabilities	1,628,182,386	1,544,246,207	5.44
Customer deposits	1,049,944,951	974,770,403	7.71
Equity attributable to shareholders of the Bank	<u>107,427,802</u>	<u>100,885,498</u>	<u>6.48</u>

Per share (RMB)

	January to June 2019	January to June 2018	Period-on- period
Basic earnings per share attributable to shareholders of the Bank	0.36	0.34	Increase by RMB0.02
Diluted earnings per share attributable to shareholders of the Bank	0.36	0.34	Increase by RMB0.02
	June 30, 2019	December 31, 2018	Compared with the end of last year
Net assets per share attributable to shareholders of the Bank at the end of the period	<u>4.94</u>	<u>4.59</u>	<u>Increase by RMB0.35</u>

Profitability indicators (%)

	January to June 2019	January to December 2018	January to June 2018	Period-on- period
Return on average total assets	0.91*	0.73	0.83*	Increase by 0.08 percentage point
Return on average equity	16.03*	14.17	16.82*	Decrease by 0.79 percentage point
Net interest margin	2.34*	1.93	1.80*	Increase by 0.54 percentage point
Net interest spread	2.01*	1.76	1.65*	Increase by 0.36 percentage point
Net non-interest income to operating income	29.34	32.38	37.44	Decrease by 8.10 percentage points
Cost-to-income ratio ⁽¹⁾	25.80	29.99	28.77	Decrease by 2.97 percentage points

Asset quality indicators (%)

	June 30, 2019	December 31, 2018	June 30, 2018	Compared with that at the end of last year
Non-performing loan ratio ⁽²⁾	1.37	1.20	1.14	Increase by 0.17 percentage point
Allowance to non-performing loans ⁽³⁾	239.92	270.37	280.59	Decrease by 30.45 percentage points
Allowance to total loans ⁽⁴⁾	3.29	3.25	3.20	Increase by 0.04 percentage point

Capital adequacy indicators (%)

	June 30, 2019	December 31, 2018	June 30, 2018	Compared with that at the end of last year
Core tier-one capital adequacy ratio	8.52	8.38	8.41	Increase by 0.14 percentage point
Tier-one capital adequacy ratio	9.89	9.83	9.97	Increase by 0.06 percentage point
Capital adequacy ratio	13.32	13.38	13.71	Decrease by 0.06 percentage point

Notes: * represents an annualized ratio.

- (1) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (2) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (3) Allowance to non-performing loans = Balance of expected credit loss ("ECL") allowance on loans divided by balance of non-performing loans. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to non-performing loans shall not be less than 140%.
- (4) Allowance to total loans ratio = Balance of expected credit loss ("ECL") allowance on loans divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to total loans ratio shall not be less than 2.1%.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) DEVELOPMENT STRATEGIES

Overall Objective of “Two Most”: Our objective is to become the most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means the objective to become a first-class joint-stock bank that can provide target customers with professional services, possess distinct competitive advantages in terms of innovation, risk control, service provision in the market and value creation, reach the scale matching the identity of a national joint-stock commercial bank, and provide support for sustainable development of professionalism.

“Zhejiang’s Most Important Financial Platform” means the objective to become a representative financial group in Zhejiang featured by comprehensive functions, leading scale, solid performance and sound reputation, stand at the forefront of the industry in terms of resources deployment, efficient services and model innovation and become a strategic partner of governments at all levels, financial institutions, core enterprises and a large number of business in Zhejiang.

Being the most competitive commercial bank is the capability foundation for being the most important financial platform, while being the most important financial platform is the objective manifestation and significant support of being the most competitive commercial bank. The “Two Most” are causally interrelated.

Full-asset Class Operation Strategy: It is a systematic operation strategy covering the front, middle and back office management and coordination, as well as a contingency operation system with clear orientation, flexible mechanism, diversified strategies and various tools, which accommodates to the highly uncertain and fast-changing market environment on its own initiative.

At the internal operation level, the Bank will break through the limitation of mainly focusing on credit assets, and adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets on and off the balance sheet from time to time according to changes in market and customer demands, so as to reshape the balance sheet of the Bank through asset-driven-liability mode. At the customer service level, the Bank will break the boundaries of assets, liabilities and services as well as corporate, inter-banking, personal businesses and products and integrate financial activities into businesses and life of customers to optimize their balance sheets, thus enabling the Bank to obtain the competitive abilities to quickly adapting to changes in the market and customer demands, develop diversified profit sources, effectively balance impacts of economic cycles and business fluctuations on our asset size and profitability and achieve a growth leading in the industry, and ultimately achieve the overall objective of “Two Most”.

Strategic Positioning: The Company will focus on innovation and cooperation, so as to realize a concentration of customers and business under the customer-centered concept. The Company will take flexible measures to respond to changes and build itself up as a comprehensive, digital and horizontal organic organization. And the Company will keep abreast of leading standards to become a medium-scale bank with most featured competitive strengths.

Focusing on innovation and cooperation so as to realize a concentration of customers and business under the customer-centered concept: The Company will adhere to innovation and cooperation and the customer-centered concept, and consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the “horse racing mechanism”, thereby enhancing competitiveness across the Bank.

Taking flexible measures to respond to changes and building itself up as a comprehensive, digital and horizontal organic organization: A flexible and responsive organic organization will be formed based on business models and support systems, which will promote internal business synergies and external integrated operations, achieve digital transformation linking internal and external businesses throughout front, middle and back offices, and build a horizontal organization with streamlined structure and intensive management pattern.

Keeping abreast of leading standards to become a medium-scale bank with most featured competitive strengths: Keeping abreast of the industry's first-class standards, CZBank will gradually form its own benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building its leading featured competitive strengths.

(II) ANALYSIS OF OVERALL OPERATING PERFORMANCE

Continuing enhancement of operating efficiencies

During the reporting period, operating income of the Group amounted to RMB22.574 billion, representing an increase of RMB3.978 billion or 21.39% on a period-on-period basis. Net profit attributable to shareholders of the Bank amounted to RMB7.528 billion, representing an increase of RMB1.042 billion or 16.07% on a period-on-period basis.

Adjusting and optimizing business structure

As at the end of the reporting period, total assets of the Group amounted to RMB1,737.269 billion, representing an increase of RMB90.575 billion or 5.50% as compared with that at the end of last year, of which total loans and advances to customers amounted to RMB932.702 billion, representing an increase of RMB67.470 billion or 7.80% as compared with that at the end of last year; and net loans and advances to customers accounted for 51.92% of total assets, representing an increase of 1.09 percentage points as compared with that at the end of last year. Total liabilities amounted to RMB1,628.182 billion, representing an increase of RMB83.936 billion or 5.44% as compared with that at the end of last year, of which customer deposits amounted to RMB1,049.945 billion, representing an increase of RMB75.175 billion or 7.71% as compared with that at the end of last year; and customer deposits accounted for 64.49% of total liabilities, representing an increase of 1.36 percentage points as compared with that at the end of last year.

Maintaining sound asset quality

As at the end of the reporting period, the non-performing loan ratio of the Group was 1.37%, representing an increase of 0.17 percentage point as compared with that at the end of last year; the allowance to non-performing loans was 239.92%, representing a decrease of 30.45 percentage points as compared with that at the end of last year; the allowance to total loans ratio was 3.29%, representing an increase of 0.04 percentage point as compared with that at the end of last year.

Maintaining stable capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 13.32%, representing a decrease of 0.06 percentage point as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 9.89%, representing an increase of 0.06 percentage point as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 8.52%, representing an increase of 0.14 percentage point as compared with that at the end of last year.

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of consolidated statement of comprehensive income

In the first half of 2019, the Group transformed its development mode, adjusted and optimized its structure, and strengthened its customer base so as to prevent and mitigate risks and improve the operating performance, according to the overall objective of “Two Most”. In the first half of 2019, the Group achieved a net profit attributable to shareholders of the Bank of RMB7.528 billion, representing an increase of 16.07% on a period-on-period basis; the annualized return on average total assets was 0.91% and the annualized return on average equity was 16.03%. Operating income was RMB22.574 billion, representing an increase of 21.39% on a period-on-period basis, including, among others, net interest income of RMB15.951 billion, representing an increase of 37.10% on a period-on-period basis; net non-interest income of RMB6.623 billion, representing a decrease of 4.87% on a period-on-period basis. Operating expenses were RMB6.064 billion, representing an increase of 8.84% on a period-on-period basis; cost-to-income ratio was 25.80%. Provision for expected credit losses was RMB7.765 billion, representing an increase of 52.90% on a period-on-period basis. The income tax expense was RMB1.120 billion, representing a decrease of 22.03% on a period-on-period basis.

Changes of the main items in the statement of comprehensive income

In thousands of RMB, except percentages

Item	January to June 2019	January to June 2018	Amount of increase or decrease	Growth rate (%)
Net interest income	15,950,527	11,634,165	4,316,362	37.10
Net non-interest income	6,623,108	6,961,895	(338,787)	(4.87)
Operating income	22,573,635	18,596,060	3,977,575	21.39
Less: operating expenses	6,064,369	5,571,866	492,503	8.84
Less: expected credit losses	7,765,131	5,078,476	2,686,655	52.90
Profit before income tax	8,744,135	7,945,718	798,417	10.05
Less: income tax expense	1,120,109	1,436,654	(316,545)	(22.03)
Net profit	7,624,026	6,509,064	1,114,962	17.13
Attributable to:				
Shareholders of the Bank	7,528,002	6,485,825	1,042,177	16.07
Non-controlling interests	96,024	23,239	72,785	313.20

Net interest income

In the first half of 2019, net interest income was RMB15.951 billion, representing an increase of RMB4.316 billion or 37.10% on a period-on-period basis, accounting for 70.66% of operating income; interest income was RMB38.750 billion, representing an increase of RMB4.180 billion or 12.09% on a period-on-period basis; interest expense was RMB22.799 billion, representing a decrease of RMB137 million or 0.60% on a period-on-period basis. Net interest spread and net interest margin were 2.01% and 2.34%, respectively, representing an increase of 0.36 percentage point and 0.54 percentage point on a period-on-period basis, respectively.

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

In thousands of RMB, except percentages

Item	January to June 2019			January to June 2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	928,407,952	26,251,096	5.70	755,890,515	20,047,771	5.35
Investments ⁽¹⁾	456,545,293	10,516,003	4.64	491,244,714	12,265,483	5.04
Due from banks and other financial institutions ⁽²⁾	109,781,608	1,140,887	2.10	112,979,400	1,381,323	2.47
Balances with central bank ⁽³⁾	113,296,939	841,751	1.50	118,277,104	875,558	1.49
Total interest-earning assets	<u>1,608,031,792</u>	<u>38,749,737</u>	<u>4.86</u>	<u>1,478,391,733</u>	<u>34,570,135</u>	<u>4.72</u>

Item	January to June 2019			January to June 2018		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	999,113,957	12,372,373	2.50	851,352,103	8,852,520	2.10
Due to banks and other financial institutions ⁽⁴⁾	372,488,031	5,854,311	3.17	449,164,666	9,383,275	4.21
Debt securities issued ⁽⁵⁾	237,833,731	4,497,402	3.81	206,852,651	4,700,175	4.58
Lease liabilities	3,156,090	75,124	4.80	–	–	–
Total interest-bearing liabilities	1,612,591,809	22,799,210	2.85	1,507,369,420	22,935,970	3.07
Net interest income		15,950,527			11,634,165	
Net interest spread (%)			2.01			1.65
Net interest margin (%) ⁽⁶⁾			2.34			1.80

Notes:

- (1) According to the requirements of accounting standards, interest income from financial assets at fair value through profit or loss is included in net trading gains by the Group and the data of the same period of last year were presented on the same basis to ensure the comparability of data. The investments include financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (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 inter-bank certificates of deposits, financial bonds and subordinated bonds.
- (6) Net interest margin: the income generated from businesses such as monetary funds and bond funds was not classified as interest income, and its corresponding interest-bearing liabilities and interest expense were adjusted accordingly.

Analysis of changes in interest income and interest expense

In thousands of RMB

Comparison between January to June 2019 and January to June 2018			
Item	Factors for increase (decrease)		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	4,575,517	1,627,808	6,203,325
Investments	(866,381)	(883,099)	(1,749,480)
Due from banks and other financial institutions	(39,097)	(201,339)	(240,436)
Balances with central bank	(36,866)	3,059	(33,807)
Changes in interest income	<u>3,633,173</u>	<u>546,429</u>	<u>4,179,602</u>
Interest-bearing liabilities			
Customer deposits	1,536,456	1,983,397	3,519,853
Due to banks and other financial institutions	(1,601,813)	(1,927,151)	(3,528,964)
Debt securities issued	703,962	(906,735)	(202,773)
Lease liabilities	75,124	—	75,124
Changes in interest expense	<u>713,729</u>	<u>(850,489)</u>	<u>(136,760)</u>
Changes in net interest income	<u>2,919,444</u>	<u>1,396,918</u>	<u>4,316,362</u>

Notes:

- (1) Change in volume represents the average balance for the reporting period minus the average balance for the same period of last year, multiplied by the average yield or average interest-bearing rate for the same period of last year.
- (2) Change in interest rate represents the average yield or average interest-bearing rate for the reporting period minus the average yield or average interest-bearing rate for the same period of last year, multiplied by the average balance for the reporting period.
- (3) Net increase or decrease represents interest income (expense) for the reporting period minus interest income (expense) for the same period of last year.

Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB26.251 billion, representing an increase of RMB6.203 billion or 30.94% on a period-on-period basis, mainly due to the increase in loans and advances to customers.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

	January to June 2019			January to June 2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	712,777,582	19,398,659	5.49	608,300,596	15,681,064	5.20
Personal loans and advances	215,630,370	6,852,437	6.41	147,589,919	4,366,707	5.97
Total loans and advances to customers	928,407,952	26,251,096	5.70	755,890,515	20,047,771	5.35

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB10.516 billion, representing a decrease of RMB1.749 billion or 14.26% on a period-on-period basis, mainly due to the decrease in the average yield and size of investment assets.

Interest income from due from banks and other financial institutions

Interest income from due from banks and other financial institutions was RMB1.141 billion, representing a decrease of RMB240 million or 17.41% on a period-on-period basis, primarily due to the decrease in average yield of due from banks and other financial institutions.

Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB12.372 billion, representing an increase of RMB3.520 billion or 39.76% on a period-on-period basis, primarily due to the increase in the average cost and size of customer deposits.

Interest expense on customer deposits

In thousands of RMB, except percentages

	January to June 2019			January to June 2018		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits ⁽¹⁾						
Time	590,687,952	9,020,555	3.08	504,468,793	6,946,742	2.78
Demand	291,174,599	1,573,501	1.09	290,253,233	1,174,502	0.82
Sub-total	<u>881,862,551</u>	<u>10,594,056</u>	<u>2.42</u>	<u>794,722,026</u>	<u>8,121,244</u>	<u>2.06</u>
Personal deposits						
Time	77,092,037	1,466,517	3.84	37,836,259	653,081	3.48
Demand	40,159,369	311,800	1.57	18,793,818	78,195	0.84
Sub-total	<u>117,251,406</u>	<u>1,778,317</u>	<u>3.06</u>	<u>56,630,077</u>	<u>731,276</u>	<u>2.60</u>
Total	<u><u>999,113,957</u></u>	<u><u>12,372,373</u></u>	<u><u>2.50</u></u>	<u><u>851,352,103</u></u>	<u><u>8,852,520</u></u>	<u><u>2.10</u></u>

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

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB5.854 billion, representing a decrease of RMB3.529 billion or 37.61% on a period-on-period basis, primarily due to the decrease in the average cost and size.

Interest expense on debt securities issued

Interest expense on debt securities issued amounted to RMB4.497 billion, representing a decrease of RMB203 million or 4.31% on a period-on-period basis, primarily due to the decrease in the average cost of debt securities issued.

Net non-interest income

Net non-interest income in the first half of 2019 amounted to RMB6.623 billion, representing a decrease of RMB339 million or 4.87% on a period-on-period basis. Among which, the net fee and commission income was RMB2.567 billion, representing an increase of RMB229 million on a period-on-period basis, while other net non-interest income was RMB4.056 billion, representing a decrease of RMB568 million on a period-on-period basis.

Net fee and commission income

In thousands of RMB, except percentages

Item	January to June 2019	January to June 2018	Amount of increase or decrease	Growth rate (%)
Asset management service	489,861	862,239	(372,378)	(43.19)
Settlement business	755,630	407,016	348,614	85.65
Underwriting service	617,828	392,647	225,181	57.35
Custodian and other fiduciary service	280,296	285,522	(5,226)	(1.83)
Credit commitment	313,795	247,040	66,755	27.02
Agency service	129,750	207,239	(77,489)	(37.39)
Others	263,341	192,079	71,262	37.10
Fee and commission income	2,850,501	2,593,782	256,719	9.90
Less: Fee and commission expense	283,572	255,834	27,738	10.84
Net fee and commission income	<u>2,566,929</u>	<u>2,337,948</u>	<u>228,981</u>	<u>9.79</u>

Fee income from asset management service was RMB490 million, representing a decrease of RMB372 million on a period-on-period basis, primarily due to structure adjustment of the asset management business.

Fee income from settlement business was RMB756 million, representing an increase of RMB349 million on a period-on-period basis, primarily due to the growth of the settlement and clearing business.

Fee income from underwriting service was RMB618 million, representing an increase of RMB225 million on a period-on-period basis, primarily due to the increased scale of the bond underwriting business.

Other net non-interest income*In thousands of RMB, except percentages*

Item	January to June 2019	January to June 2018	Amount of increase or decrease	Growth rate (%)
Net trading gains	3,085,923	3,759,330	(673,407)	(17.91)
Net gains on financial investments	760,364	575,164	185,200	32.20
Other operating income	209,892	289,453	(79,561)	(27.49)
Total	4,056,179	4,623,947	(567,768)	(12.28)

Operating expenses*In thousands of RMB, except percentages*

Item	January to June 2019	January to June 2018	Amount of increase or decrease	Growth Rate (%)
Staff costs	4,177,181	3,472,983	704,198	20.28
General and administrative expenses	907,408	1,191,498	(284,090)	(23.84)
Tax and surcharges	240,781	222,358	18,423	8.29
Rental expenses	60,462	343,370	(282,908)	(82.39)
Depreciation and amortization	654,190	321,102	333,088	103.73
Others	24,347	20,555	3,792	18.45
Total	6,064,369	5,571,866	492,503	8.84

Expected credit losses*In thousands of RMB, except percentages*

Item	January to June 2019	January to June 2018	Amount of increase or decrease	Growth rate (%)
Loans and advances to customers	3,861,212	4,955,337	(1,094,125)	(22.08)
Financial assets measured at amortized cost	3,366,109	(66,809)	3,432,918	—
Due from banks and other financial institutions	376,692	(741)	377,433	—
Finance lease receivables	210,883	175,266	35,617	20.32
Loan commitments and financial guarantee contracts	179,951	56,925	123,026	216.12
Financial assets at fair value through other comprehensive income	(229,156)	(51,816)	(177,340)	—
Others	(560)	10,314	(10,874)	(105.43)
Total	<u>7,765,131</u>	<u>5,078,476</u>	<u>2,686,655</u>	<u>52.90</u>

Income tax expense

The income tax expenses were RMB1.120 billion, representing a period-on-period decrease of RMB317 million or 22.03%, and the actual tax rate was 12.81%.

Segment operating results by business line

In thousands of RMB, except percentages

Item	January to June 2019		January to June 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	13,301,027	58.92	11,539,274	62.05
Retail banking	3,805,969	16.86	2,265,813	12.18
Treasury business	4,856,908	21.52	4,403,038	23.68
Others	609,731	2.70	387,935	2.09
Total operating income	22,573,635	100.00	18,596,060	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	January to June 2019		January to June 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Yangtze River Delta Region	12,836,740	56.87	10,718,852	57.64
Bohai Rim Region	3,886,828	17.22	3,071,833	16.52
Pearl River Delta Region	1,799,441	7.97	1,495,587	8.04
Midwestern China Region	4,050,626	17.94	3,309,788	17.80
Total operating income	22,573,635	100.00	18,596,060	100.00

2. Analysis on statement of financial position

In the first half of 2019, the Group earnestly carried out its new development concept by continuously adjusting and optimizing the structure, adhering to serving the real economy, accelerating innovation and transformation and fostering new growth momentum to promote high-quality development. Liquidity and market risk management were further strengthened, and resource allocation efficiency of assets and liabilities was steadily improved.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB1,737.269 billion, representing an increase of RMB90.575 billion or 5.50% as compared with that at the end of last year, including an increase in net loans and advances to customers of RMB64.952 billion or 7.76% and a decrease in financial investments of RMB8.941 billion or 1.58%. In terms of the structure, net loans and advances to customers accounted for 51.92% of total assets, financial investments accounted for 32.00%, and cash and balances with central bank accounted for 7.45%.

Assets utilization

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	932,702,427		865,232,669	
Less: the expected credit loss allowance for loans	(30,675,034)		(28,156,779)	
Net loans and advances to customers	902,027,393	51.92	837,075,890	50.83
Financial investments	555,992,359	32.00	564,932,978	34.31
Cash and balances with central bank	129,358,162	7.45	126,370,232	7.67
Precious metal	9,404,668	0.54	8,103,317	0.49
Due from banks and other financial institutions	74,180,682	4.27	55,383,174	3.36
Others	66,305,987	3.82	54,829,153	3.33
Total assets	1,737,269,251	100.00	1,646,694,744	100.00

Loans and advances to customers

In the first half of 2019, the Group, in response to changes in the macroeconomic environment and financial regulatory requirements, centered on serving the real economy and the supply-side structural reform, continuously optimized credit structure, deepened financial services to small and micro enterprises and private enterprises, and actively developed inclusive finance and green finance. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB932.702 billion, representing an increase of RMB67.470 billion or 7.80% as compared with that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	612,461,997	65.67	603,258,461	69.72
Discounted bills	80,612,050	8.64	57,707,010	6.67
Personal loans	237,031,259	25.41	201,407,629	23.28
Changes in fair value through other comprehensive income	109,077	0.01	146,906	0.02
Accrued interest	2,488,044	0.27	2,712,663	0.31
Total	932,702,427	100.00	865,232,669	100.00

Corporate loans

Taking full advantage of its liquidity services, the Group met customers' financing needs with diversified products, and promoted the optimization of its corporate loan structure. As at the end of the reporting period, total corporate loans amounted to RMB612.462 billion, representing an increase of 1.53% as compared with that at the end of last year.

Discounted bills

The Group returned to the origin of the bill business, served the real economy to meet the real trade settlement needs of customers and optimized the business structure with the aim of increasing the comprehensive income of the discounted bill business. As at the end of the reporting period, total discounted bills amounted to RMB80.612 billion, representing an increase of 39.69% as compared with that at the end of last year.

Personal loans

The Group continued to enrich its application scenarios, expanded the scope of customer and business linkages and optimized its asset structure to continuously promote the growth of personal loans. As at the end of the reporting period, total personal loans amounted to RMB237.031 billion, representing an increase of 17.69% as compared with that at the end of last year.

Financial investments

In the first half of 2019, the Group strongly supported the development of real economy, and continually optimized investment portfolio and structure based on investment strategies and risk policies. As at the end of the reporting period, total financial investments amounted to RMB555.992 billion, representing a decrease of 1.58% as compared with that at the end of last year.

Financial investment composition

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	129,245,119	23.25	135,210,776	23.93
Financial assets at fair value through other comprehensive income	89,384,935	16.08	91,885,792	16.27
Financial assets measured at amortized cost	337,362,305	60.68	337,836,410	59.80
Total	555,992,359	100.00	564,932,978	100.00

As at the end of the reporting period, financial assets at fair value through profit or loss of the Group amounted to RMB129.245 billion; financial assets at fair value through other comprehensive income amounted to RMB89.385 billion; financial assets at amortized cost amounted to RMB337.362 billion.

(2) *Liabilities*

As at the end of the reporting period, total liabilities of the Group amounted to RMB1,628.182 billion, representing an increase of RMB83.936 billion or 5.44% as compared with that at the end of last year.

Liabilities composition

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	1,049,944,951	64.49	974,770,403	63.12
Due to banks and other financial institutions	282,504,329	17.35	279,999,081	18.13
Financial liabilities at fair value through profit or loss	10,564,941	0.65	12,483,213	0.81
Debt securities issued	247,978,177	15.23	245,996,763	15.93
Others	37,189,988	2.28	30,996,747	2.01
Total liabilities	1,628,182,386	100.00	1,544,246,207	100.00

Customer deposits

The Group attached importance to deposit organization and management, actively responded to the changes in market demand, fully utilized the comprehensive advantages of financial services, vigorously organized the absorption of basic deposits, enriched the types of deposit products and continued to optimize the deposit structure.

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	305,867,730	29.13	308,220,456	31.62
Time	606,452,802	57.76	555,965,785	57.04
Sub-total	912,320,532	86.89	864,186,241	88.66
Personal deposits				
Demand	41,126,992	3.92	40,502,374	4.16
Time	82,227,109	7.83	57,161,099	5.86
Sub-total	123,354,101	11.75	97,663,473	10.02
Other deposits	2,954,844	0.28	2,577,816	0.26
Accrued interest	11,315,474	1.08	10,342,873	1.06
Total	1,049,944,951	100.00	974,770,403	100.00

As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB1,049.945 billion, representing an increase of RMB75.175 billion or 7.71% as compared with that at the end of last year. With respect to customer structure, corporate deposits increased by RMB48.134 billion or 5.57%; and personal deposits increased by RMB25.691 billion or 26.31%. With respect to term structure, time deposits increased by RMB75.553 billion or 12.32%; and demand deposits decreased by RMB1.728 billion or 0.50%.

(3) *Shareholder's equity*

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB107.428 billion in total, representing an increase of RMB6.542 billion or 6.48% as compared with that at the end of last year.

(IV) ANALYSIS OF THE LOAN QUALITY

1. Loan distribution by the five-category classification

In thousands of RMB, except percentages

Item	June 30, 2019		December 31, 2018	
	Amount of loans	Percentage (%)	Amount of loans	Percentage (%)
Pass	898,934,799	96.38	837,905,409	96.84
Special mention	18,385,162	1.97	14,053,511	1.62
Non-performing	12,785,345	1.37	10,414,180	1.20
Substandard	4,869,115	0.52	4,923,593	0.57
Doubtful	6,775,200	0.73	4,348,337	0.50
Loss	1,141,030	0.12	1,142,249	0.13
Changes in fair value through other comprehensive income	109,077	0.01	146,906	0.02
Accrued interest	2,488,044	0.27	2,712,663	0.31
Total loans and advances	932,702,427	100.00	865,232,669	100.00

The loan quality of our Group was kept at an excellent level. As at the end of the reporting period, according to the five-category classification of the supervision system, the pass loans amounted to RMB898.935 billion, representing an increase of RMB61.029 billion as compared with that at the end of last year, accounting for 96.38% of total loans and advances to customers. Loans classified as special mention were RMB18.385 billion, representing an increase of RMB4.332 billion as compared with that at the end of last year, accounting for 1.97% of total loans and advances to customers. The non-performing loans were RMB12.785 billion, representing an increase of RMB2.371 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.37%, representing an increase of 0.17 percentage point as compared with that at the end of last year.

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

In thousands of RMB, except percentages

Item	June 30, 2019				December 31, 2018			
	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 (%)
Corporate loans	612,461,997	65.67	10,695,102	1.75	603,258,461	69.72	9,126,958	1.51
Personal loans	237,031,259	25.41	2,025,448	0.85	201,407,629	23.28	1,228,532	0.61
Discounted bills	80,612,050	8.64	64,796	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	109,077	0.01	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	2,488,044	0.27	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	932,702,427	100.00	12,785,345	1.37	865,232,669	100.00	10,414,180	1.20

As at the end of the reporting period, our non-performing corporate loans amounted to RMB10.695 billion, representing an increase of RMB1.568 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.75%, representing an increase of 0.24 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB2.025 billion, representing an increase of RMB797 million as compared with that at the end of last year, with a non-performing loan ratio of 0.85%, representing an increase of 0.24 percentage point as compared with that at the end of last year.

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

In thousands of RMB, except percentages

Item	June 30, 2019				December 31, 2018			
	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 (%)
Corporate loans	612,461,997	65.67	10,695,102	1.75	603,258,461	69.72	9,126,958	1.51
Manufacturing	115,325,659	12.36	5,199,512	4.51	113,574,111	13.13	4,188,823	3.69
Leasing and commercial Services	128,564,761	13.78	475,843	0.37	116,611,687	13.48	366,293	0.31
Real estate	117,691,600	12.62	534,096	0.45	118,527,240	13.70	737,467	0.62
Wholesale and retail trade	75,896,741	8.14	2,946,368	3.88	80,961,514	9.36	2,405,271	2.97
Administration of water conservancy, environment and public facilities	54,372,716	5.83	4,191	0.01	54,183,720	6.26	2,991	0.01
Construction	47,710,040	5.12	354,846	0.74	45,329,965	5.24	309,999	0.68
Financing	13,663,862	1.46	—	—	16,865,207	1.95	—	—
Electricity, heat, gas and water production and supply	10,554,688	1.13	247,934	2.35	9,675,724	1.12	252,183	2.61
Transportation, storage and postal service	8,382,300	0.90	269,521	3.22	9,233,210	1.07	303,013	3.28
Accommodation and Catering	6,277,643	0.67	65,797	1.05	5,624,076	0.65	98,632	1.75
Mining	4,982,554	0.53	15,604	0.31	5,286,317	0.61	16,104	0.30
Others ⁽¹⁾	29,039,433	3.11	581,390	2.00	27,385,690	3.17	446,182	1.63
Personal loans	237,031,259	25.41	2,025,448	0.85	201,407,629	23.28	1,228,532	0.61
Discounted bills	80,612,050	8.64	64,796	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	109,077	0.01	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	2,488,044	0.27	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	932,702,427	100.00	12,785,345	1.37	865,232,669	100.00	10,414,180	1.20

Note:

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

In the first half of 2019, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as industries with excess production capacity, real estate, etc., with a view to optimizing the allocation of credit resources continually.

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

In thousands of RMB, except percentages

	June 30, 2019				December 31, 2018			
	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 (%)
Yangtze River Delta Region	513,666,364	55.07	5,842,413	1.14	461,768,587	53.37	4,741,626	1.03
Midwestern China Region	178,731,134	19.16	1,852,525	1.04	170,822,059	19.74	1,397,987	0.82
Bohai Rim Region	161,405,839	17.31	3,317,383	2.06	152,875,633	17.67	2,882,821	1.89
Pearl River Delta Region	76,301,969	8.18	1,773,024	2.32	76,906,821	8.89	1,391,745	1.81
Changes in fair value through other comprehensive income	109,077	0.01	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	2,488,044	0.27	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	932,702,427	100.00	12,785,345	1.37	865,232,669	100.00	10,414,180	1.20

As at the end of the reporting period, taking into account economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development. As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta region, where the non-performing loan ratio increased by 0.11 percentage point as compared with that at the end of last year.

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

In thousands of RMB, except percentages

	June 30, 2019				December 31, 2018			
	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	389,764,841	41.79	4,704,846	1.21	350,785,476	40.54	3,645,845	1.04
Pledged loans	116,663,026	12.51	1,371,659	1.18	119,429,333	13.80	1,249,338	1.05
Guaranteed loans	197,221,846	21.15	5,584,823	2.83	208,182,269	24.06	4,718,278	2.27
Unsecured loans	145,843,543	15.64	1,059,221	0.73	126,269,012	14.59	742,030	0.59
Discounted bills	80,612,050	8.64	64,796	0.08	57,707,010	6.67	58,689	0.10
Changes in fair value through other comprehensive income	109,077	0.01	N/A	N/A	146,906	0.02	N/A	N/A
Accrued interest	2,488,044	0.27	N/A	N/A	2,712,663	0.31	N/A	N/A
Total loans and advances	932,702,427	100.00	12,785,345	1.37	865,232,669	100.00	10,414,180	1.20

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the collateralized loans accounted for 41.79% of the total loans and advances to customers, which was a relatively high percentage; the collateralized loans balance was RMB389.765 billion, representing an increase of RMB38.979 billion compared with that at the end of last year; the balance of non-performing loans among collateralized loans was RMB4.705 billion, with the non-performing loan ratio of 1.21%, representing an increase of 0.17 percentage point compared with that at the end of last year.

6. Top ten borrowers

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Manufacturing	3,859,957.06	0.41
B	Leasing and commercial services	3,852,000.00	0.41
C	Leasing and commercial services	3,498,000.00	0.38
D	Real estate	3,350,000.00	0.36
E	Leasing and commercial services	3,289,130.00	0.35
F	Manufacturing	3,167,325.52	0.34
G	Real estate	2,774,229.60	0.30
H	Manufacturing	2,746,020.00	0.29
I	Real estate	2,500,000.00	0.27
J	Real estate	2,303,896.64	0.25
Total		31,340,558.82	3.36

As at the end of the reporting period, the balance of loans to the single largest borrower of the Group was RMB3.860 billion, representing 2.64% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB31.341 billion, representing 21.40% of the net capital and 3.36% of the total loans and advances to customers of the Group.

7. Overdue loans

In thousands of RMB, except percentages

Overdue period	June 30, 2019		December 31, 2018	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 day to 90 days	3,758,729	0.40	2,335,939	0.27
Overdue by 90 days to one year	5,295,668	0.57	4,222,678	0.49
Overdue by one year to three years	4,399,801	0.47	3,759,409	0.43
Overdue by more than three years	129,885	0.01	333,107	0.04
Total	13,584,083	1.46	10,651,133	1.23

As at the end of the reporting period, the balance of overdue loans amounted to RMB13.584 billion, representing an increase of RMB2.933 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB9.825 billion, representing an increase of RMB1.510 billion as compared with that at the end of last year.

8. Renegotiated loans

The Group exercised strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB1.771 billion, representing an increase of RMB0.166 billion as compared with that at the end of last year. Among them, total renegotiated loans and advances that were overdue by more than three months amounted to RMB1.768 billion, representing an increase of RMB0.442 billion as compared with that at the end of last year.

9. Movements in the expected credit loss (“ECL”) allowance on loans

In thousands of RMB

	ECL amount
ECL allowance as at December 31, 2018	28,156,779
Net ECL charged to profit or loss	3,861,212
Unwinding of discount on ECL allowance	(65,749)
Write-offs	(1,105,989)
Transfer out	(344,096)
Recovered loans and advances previously written off	171,536
Impact of exchange rate	1,341
ECL allowance as at June 30, 2019	30,675,034

(V) CAPITAL MANAGEMENT

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 Group'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.

As of June 30, 2019, capital adequacy ratio of the Group was 13.32%, tier-one capital adequacy ratio was 9.89%, core tier-one capital adequacy ratio was 8.52%, and leverage ratio was 5.26%, all of which met regulatory requirements.

Capital adequacy ratio (the Group)

In thousands of RMB, except percentages

Item	June 30, 2019	December 31, 2018
Core tier-one capital	93,870,216	87,264,309
Paid-in capital	18,718,697	18,718,697
Part of capital reserves that can be included	22,130,353	22,130,353
Surplus reserves	4,892,659	4,885,381
General risk reserves	18,549,144	18,483,647
Undistributed profits	27,434,578	20,455,847
Part of minority interests that can be included	958,955	793,328
Others	1,185,831	1,797,056
Core tier-one capital deductible items	(228,694)	(220,671)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(228,694)	(220,671)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	—	—
Net core tier-one capital	93,641,522	87,043,638
Other tier-one capital	15,085,524	15,063,441
Other tier-one capital instruments and premium	14,957,664	14,957,664
Part of minority interests that can be included	127,861	105,777
Net tier-one capital	108,727,046	102,107,079
Tier-two capital	37,694,233	36,923,021
Tier-two capital instruments and premium that can be included	25,000,000	25,000,000
Excessive allowance for loan losses	12,438,512	11,711,467
Part of minority interests that can be included	255,721	211,554
Tier-two capital deductible items	—	—
Net capital base	146,421,279	139,030,100
Risk-weighted assets	1,099,120,046	1,038,882,918
Core tier-one capital adequacy ratio (%)	8.52	8.38
Tier-one capital adequacy ratio (%)	9.89	9.83
Capital adequacy ratio (%)	13.32	13.38

Leverage ratio (the Group)

In thousands of RMB, except percentages

Item	June 30, 2019	December 31, 2018
Tier-one capital	108,955,740	102,327,750
Tier-one capital deductible items	(228,694)	(220,671)
Net tier-one capital	108,727,046	102,107,079
Adjusted asset balance inside the balance sheet	1,683,648,700	1,606,961,915
Asset balance of derivative products	6,732,821	32,845,335
Asset balance of securities financing transactions	43,904,285	28,929,451
Adjusted asset balance outside the balance sheet	330,974,762	332,637,482
Adjusted asset balance inside and outside the balance sheet	2,065,260,568	2,001,374,183
Leverage ratio (%)	5.26	5.10

As of June 30, 2019, the capital adequacy ratio of the Company was 13.33%, the tier-one capital adequacy ratio was 9.87%, the core tier-one capital adequacy ratio was 8.47%, and the leverage ratio was 5.19%, all of which met regulatory requirements.

Capital adequacy ratio (the Company)

In thousands of RMB, except percentages

Item	June 30, 2019	December 31, 2018
Core tier-one capital	92,714,481	86,374,144
Paid-in capital	18,718,697	18,718,697
Part of capital reserves that can be included	22,130,353	22,130,353
Surplus reserves	4,882,975	4,882,975
General risk reserves	18,461,991	18,461,991
Undistributed profits	27,334,635	20,383,073
Others	1,185,831	1,797,056
Core tier-one capital deductible items	(1,749,805)	(1,742,290)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(219,805)	(212,290)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	(1,530,000)	(1,530,000)
Net core tier-one capital	90,964,676	84,631,854
Other tier-one capital	14,957,664	14,957,664
Net tier-one capital	105,922,340	99,589,518
Tier-two capital	37,128,094	36,454,777
Tier-two capital instruments and premium that can be included	25,000,000	25,000,000
Excessive allowance for loan losses	12,128,094	11,454,777
Tier-two capital deductible items	—	—
Net capital base	143,050,434	136,044,295
Risk-weighted assets	1,073,385,798	1,017,500,610
Core tier-one capital adequacy ratio (%)	8.47	8.32
Tier-one capital adequacy ratio (%)	9.87	9.79
Capital adequacy ratio (%)	13.33	13.37

Leverage ratio (the Company)

In thousands of RMB, except percentages

Item	June 30, 2019	December 31, 2018
Tier-one capital	107,672,145	101,331,808
Tier-one capital deductible items	(1,749,805)	(1,742,290)
Net tier-one capital	105,922,340	99,589,518
Adjusted asset balance inside the balance sheet	1,658,022,366	1,587,930,008
Asset balance of derivative products	6,732,821	32,845,335
Asset balance of securities financing transactions	43,340,087	27,557,542
Adjusted asset balance outside the balance sheet	330,974,762	332,504,955
Adjusted asset balance inside and outside the balance sheet	2,039,070,036	1,980,837,841
Leverage ratio (%)	5.19	5.03

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

The Company adopts a “prudent and solid” risk appetite by persistently serving the real economy and strengthening innovation incentive. The Company facilitates the admission management to strengthen its customer base and optimize its business structure; improves the post-investment and post-loan management to effectively prevent and relieve risks; increases the application of financial technologies to continuously promote the construction of big data risk management system; and gradually improves the comprehensive risk management system to ensure the Company’s transformation and development with high quality and facilitate the achievement of the “Two Most” overall objective in a stable manner.

The Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the Senior Management is responsible for implementing comprehensive risk management. The Company establishes the position of chief risk officer. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the coordination department for comprehensive risk management and the leading executive department for management of the credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general 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.

The Company assigns risk monitoring officers to departments subject to higher business complexity and relatively concentrative risks at our head office. Risk monitoring officers are responsible for helping leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to the president of our head office. They make business judgment and report on risk issues independently. The Company assigns to its branches risk monitoring officers, who help presidents of such branches organize comprehensive risk management, focus on the management and control over risks of large financing customers as well as complicated and difficult businesses and are independent of such branches and directly report to the president of our head office. They make business judgment and report on risk issues independently.

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to defaults of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in on- and off-balance sheet business, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit, letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize 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 Board of Directors, the Board of Supervisors, the Senior Management, the risk management and internal control committee, the credit, investment and transaction review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business operation and management departments, financial technology department, audit department, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of systems and policies relating to credit risk management.

The Company formulates fundamental credit policies based on changes in external operating environment and internal operating and risk conditions. Such policies expressly set out guidances on certain aspects of our credit business, such as customer structure, industry structure, regional structure and key business areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBIRC, comprehensively taking into account such factors as a borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of a credit project and status of a guarantee. The Company's credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by authorized people.

(1) Credit risk management for corporate business

The Company conducts a unified credit management of corporate customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company strictly complies with relevant regulatory requirements of the CBIRC and puts loans (including trade financing), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses where credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limits of single corporate customers, group customers and industries.

The Company continuously enhances the construction of our credit system, formulates a unified credit quota management system for our corporate customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improves the concentration risk management, formulates the concentration risk management related systems, clarifies the responsibilities allocation and main methods of concentration risk management, and continues to promote the construction of concentration risk management.

The Company continuously enhances the management of loan risks related to financing platforms of local governments, strictly complies with various loan policies and regulatory requirements of the CBIRC on financing platforms of local governments, makes dynamic adjustments to targets of credit granting, and further optimizes the loan structure of financing platforms to prevent credit risks that may arise from governments' financing platforms; sets credit limits for loans to local governments' financing platforms and enhances our monitoring and management on the risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate related credit business prudently, and adjusts our credit extension orientation for the real estate industry in a duly manner according to national policy and industrial operation situation. The Company sets dynamic credit limits for loans we grant to the customers in the real estate industry and adopts the name list system management, and continuously adjusts and optimizes the asset structure, as well as strengthens the monitoring and management of risks relating to existing loans.

The Company continuously enhances the management of loan risks for industries with excessive production capacity, and strictly controls loans that we grant to entities in industries with seriously excessive production capacity.

(2) *Credit risk management for small and micro enterprise business*

The Company conducts unified credit extension management for small and micro enterprise customers (including individual operators), and integrates all types of credit business of small and micro enterprise customers (including individual operators) into our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out and standardizes the procedures and requirements for credit extension to gradually cultivate a featured and standard credit extension model of the Company.

The Company continuously strengthens the management of credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by tracking overdue loans and on-site and off-site monitoring.

(3) *Credit risk management for Retail Business*

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company formulates the entry barriers for different groups of customers, adopts controls over overall limits of personal loans, restrains risks associated with loans with multiple borrowers as well as improves and optimizes the management mechanism of credit risks associated with personal loans. The Company continuously enhances selection and management of guarantees and improves its ability to mitigate credit risks. The Company continues to strengthen subsequent management of personal loans such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre-business risk prevention, on-going risk monitoring during the process and post-business risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of procedures for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

(4) *Credit risk management for inter-bank business*

The Company's inter-bank business mainly comprises inter-bank business, monetary market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. Credit risks faced are mainly concentrated on monetary market business, bond investment business and inter-bank business.

The Company's inter-bank business involving customer credit risk is covered in our unified credit extension management. When conducting business, the Company will draw up the customers' credit lines in accordance with relevant policies for the management of the concentration of customer risks.

The Company manages the risks in our bond investment business through admission grading, credit limit control and credit extension risk assessment and put them under our unified credit extension management system. Credit risks of invested bonds are tracked and monitored together by traders in the front office and relevant risk management departments. In addition, relevant risk management departments will also evaluate credit risks of invested bonds regularly.

The Company includes financial institution customers in the customer scope of unified credit management. The Company has formulated unified management measures and relevant operating procedures for the unified line of credit of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension to financial institution customers and carried out the risk classification and duration management of the inter-bank business.

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. Market risk can be divided into interest rate risk, exchange rate risk, stock risk and commodity risk. The term “market risk” in this section refers specifically to market risk other than interest rate risk of banking book (for the interest rate risk of banking book, please refer to the relevant content of “7. Interest rate risk management of banking book” below).

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

The Company’s market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market department, financial technology department, audit department, other departments, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, as well as formulating and carrying out relevant systems and policies for market risk management.

The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Company to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Company has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

During the reporting period, the Company has updated its market risk preferences and limit management system, further improved the market risk management systems and market risk measurement systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management system (ALGO system). The Company evaluates positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly evaluates market risks through stress testing and other methods.

4. Liquidity risk management

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. The internal factors include maturities of assets and liabilities, business structures, stability of deposits, and ability to obtain financing in the market and various unexpected events, etc.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, financial technology department, audit department, other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.

The Company managed the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Company can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels construction and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the early-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak links in the Company's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and 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.

As of the end of the reporting period, the Company's liquidity coverage ratio was 183.54%, our qualified liquid assets amounted to RMB135.909 billion, and the net cash outflows over the next 30 days was RMB74.049 billion, the total liquidity ratio of the local currencies and foreign currencies was 61.95%; the Group's liquidity coverage ratio was 182.11%, our qualified liquid assets amounted to RMB135.909 billion, and the net cash outflows over the next 30 days was RMB74.631 billion, and the total liquidity ratio of the local currencies and foreign currencies was 61.90%. As of the end of the reporting period, the Company's net stable fund ratio was 116.94%, stable fund available was RMB973.422 billion and stable fund required was RMB832.440 billion. The relevant information on the net stable fund ratio of the Group in the last two quarters was set out below:

Date	Net stable fund ratio (%)	Stable fund available (in 100 million of RMB)	Stable fund required (in 100 million of RMB)
As at June 30, 2019	115.43	9,815.27	8,503.49
As at March 31, 2019	109.15	9,352.77	8,569.09

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to imperfect or problematic internal procedures, personnel and information technology systems, as well as external events. Types of incidents of losses due to operational risks that the Company may expose to mainly include seven categories, i.e. internal fraud, external fraud, employment systems and safety incidents at working places, incidents related to clients, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, closing and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, internal control and compliance and legal department, other management departments, business departments, financial technology department and audit department of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing its operational risk management as well as formulation and implementation of relevant systems and policies for operational risk management.

The objectives of our operational risk management are to "control our operational risks within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank adjusted with respect to risks". The Company has established "three lines of defense" for operational risk management. Specifically, the business departments and other management departments constitute the first line of defense; internal control & compliance management departments and risk management departments constitute the second line of defense; and audit departments constitute the third line of defense. The Company exercises a whole-process management of operational risks, and conducts risk control and management from different perspectives, with the particular emphasis on a role of the first line of defense in risk prevention and control.

During the reporting period, the Company followed the management principles of “full coverage, clearly defined duties, honest reporting and quick response”. The Company consolidated its foundation work, innovated its management mechanism and intensified its risk prevention and control approaches so as to enhance the quality and efficiency of operational risk management. The Company identified the key work and development directions of various business lines, and stressed risk control measures and requirements of key businesses; optimized functions of various business systems to improve the rigid control ability of these systems; ensured due performance of management requirements and actively carried out all kinds of inspections; organised various employees to receive professional ability training and awareness raising training; carried out inspection to detect any irregular conduct of employees, thus effectively strengthening the management of risks associated with employees’ conduct; sorted out existing standard terms of the Bank and changed the contract review mode to constantly improve our legal risk prevention and control ability. The Company’s operational risk management system operated smoothly and the overall operational risk level was controllable.

6. Country risk management

Country risk refers to the risk incurred due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company.

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

The Company’s country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, financial market department, retail banking department and other business operation and management departments of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management systems, limit management measures and schemes, clarified the organizational structure and division of responsibilities, limit framework, management mechanism, etc. with respect to country risk limit management, and set the index and threshold of country risk limits. The Company regularly conducts assessment and monitoring of country risks and accrues a provision for country risks.

7. Interest rate risk management of banking book

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gain of the banking book arising from adverse changes in interest rate levels and term structure etc., mainly including gap risk, benchmark risk and option risk.

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

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, financial technology department, audit department and other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Company measures and evaluates our interest rate risk of banking book mainly through price-resetting gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Company gradually improved the management framework and measurement framework for interest rate risk of banking book and raised the interest rate risk management level of banking book in accordance with the requirements in the *Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks* (Revision) (CBIRC [2018] No. 25) (《商業銀行銀行賬簿利率風險管理指引(修訂)》(銀保監發[2018]25號)) issued by the CBIRC.

8. Reputational risk management

Reputational risk refers to the risk that any interested party will have a negative view of the Company as a result of our operation, management and other activities or external events.

Reputational risk management means the dynamic process of reputational risk identification, measurement or assessment, monitoring, control and reporting by the Company through formulation and implementation of a series of systems, measures and procedures, for achieving operational targets and building a good social image.

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Company, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, executive office, risk management department, financial technology department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management across the Bank as well as the formulation and implementation of relevant systems and policies for reputational risk management of the Company.

During the reporting period, the Company further improved the reputational risk management system, refined the internal management mechanism of reputational risks, enhanced advance evaluation on reputational risks, actively identified potential risks and offered public opinion management training, and worked out emergency response plans in a timely manner. The Company also established a reputational risk management system platform to regulate the reputational risk reporting and handling processes and shorten the response time for reputational risks. Meanwhile, the Company further strengthened positive publicity, innovated communication methods, enhanced public opinion guidance and improved the brand reputation of the Company.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, development and planning department, financial technology department, audit department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the strategic risk management, as well as formulating and carrying out relevant systems and policies for strategic risk management.

Adhering to the principle of "clear responsibilities, proactive prevention, overall evaluation and timely adjustment", the Company constantly improves and refines the strategic risk management system suitable for the scale and features of its business, and has realised effective management of strategic risks. Main management measures include: comprehensively implementing the strategic risk management system and mechanism, carrying out extensive mid-term strategic evaluation; strengthening follow-up and supervision of planning and implementation to substantively ensure the implementation of strategic projects; continuously carrying out strategic publicity and promoting transformation and development of branches; keeping a close eye on our peers to continuously improve the comprehensive benchmarking management system; enhancing strategic research and situation analysis to improve the strategic risk prediction and assessment ability; strengthening innovative implementation and active management, and reinforcing the resilience of strategic risk management.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, rules and relevant industrial standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant manner.

The Company's compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, responsible person for compliance, risk management department, internal control and compliance and legal department, other management departments, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management as well as the formulation and implementation of relevant systems and policies for compliance risk management.

The Company has established a relatively sound compliance risk management structure and a systematic compliance risk management system, and perfected three lines of defense for compliance risk management and dual reporting mechanism. We have continuously improved our compliance risk management mechanism and enhanced our risk management level to achieve effective control over compliance risks.

During the reporting period, the Company paid close attention to market and policy changes, tightly combined compliance risk management with business development, and continuously optimized the compliance risk management system to effectively improve management efficiency; continuously improved the rules and regulations management system, enhanced system compliance review and steadily promoted system formulation and revision to practically enhance the quality and efficiency of system management; strengthened interpretation of policies, identified and evaluated compliance risks of new products, new businesses and major events, strengthened compliance demonstration for new business system; implemented regulatory requirements, and deployed to carry out "consolidating the outcomes of market chaos handling and promoting compliance construction"; practically implemented the special project of "safeguarding by internal control and escorting by compliance", actively promoted the compliance culture, and continually perfected the internal control and compliance system; profoundly carried out the case-based warning education activities, and instructed employees to abide by rules and disciplines, and engage in compliance operations.

11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising from natural factors, human factors, technical bugs and management defects in connection with the application of information technologies in the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, chief information officer, risk management and internal control committee, information technology management committee, business continuity management committee, risk management department, financial technology department, relevant departments of the head office and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as formulating and implementing relevant systems and policies for information technology risk management.

The Company has established a relatively well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO27001 management system and regulatory requirements; established relatively well-organized systems for business continuity management, information technology outsourcing risk management, information security management etc. and a relatively well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company implemented the Information Technology Development Plan of China Zheshang Bank (Enhancement Plan 2018-2020) (《浙商銀行信息科技發展規劃(2018-2020提升規劃)》) (“Plan π+”) in an orderly manner, continually improved the disaster preparedness system of “three centres in two cities (兩地三中心)”, and enhanced the business continuity guarantee capacity; actively built up and perfected the comprehensive information security ecosystem, and implemented the security control of Internet application; further strengthened monitoring, assessment and security detection of important information systems; made arrangements for the annual emergency drill plan and improved emergency plans and held emergency drills. During the reporting period, the systems operated stably without occurring any substantial information technology risk event.

12. Anti-money laundering management

The objectives of our anti-money laundering management are to allocate resources reasonably to achieve continual identification, prudent evaluation, effective control and whole-process management of money laundering risks and effectively prevent money laundering risks by establishing and perfecting the money laundering risk management system suitable for the anti-money laundering requirements and our development strategy across the Bank.

In accordance with its corporate governance structure, the Company has established and optimized an anti-money laundering organization framework and management mechanism, under which the Board of Directors, the Board of Supervisors, Senior Management and relevant departments and branch outlets are responsible for layered management, perform their respective duties, and coordinate and cooperate with each other.

During the reporting period, with a risk-oriented approach, the Company carefully performed its responsibility with respect to anti-money laundering by intensive promotion of mechanism construction, system construction and internal control management, with smooth progress of the overall work: the Company revised and improved part of the anti-money laundering system by further clarifying the division of labor for anti-money laundering to promote the formation of a more effective work operation mechanism; it organized the conduction of customer information management and account settling, with significant improvement in the quality of customer information and account information; it accelerated the upgrade of anti-money laundering technology, with continuously enhancement in management capabilities of the anti-money laundering system; it continued to optimize suspicious monitoring indicators, organized investigation of risks regarding illegal fundraising, crime crackdown, telecommunications network frauds, and seriously conducted reporting of large-amount transactions and suspicious transactions; it timely carried out risk warning for money laundering, conscientiously implemented financial sanctions risk verification as well as anti-money laundering investigations and supports for investigations, and adopted targeted control measures for high-risk customers and businesses to effectively prevent and control risks associated with money laundering and terrorist financing.

(VII) BUSINESS OVERVIEW

1. Corporate banking segment

(1) Corporate business

In terms of corporate business, the Company has focused on developing itself into a bank that provides enterprise liquidity services, and has strived to promote the innovation of products and financial services model as well as the transformation and development of business by relying on a platform-based service mode and concept. The Company has intensively launched platforms such as pooled financing (池化融資), Yiqiyin (易企銀) and chain of accounts receivable (應收款鏈), as well as the scenario-based innovative applications of the above-mentioned platforms such as Yong Jin Treasure (湧金司庫), Order Connect (訂單通), Manifest Connect (倉單通), Instalment Connect (分期通) and special credit models of “A+B” and “H+M”, forming a complete set of comprehensive platform-based enterprise financial service solutions. The Company actively served key state strategies and the real economy, and achieved multi-win of the society, enterprises and the Bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, our corporate business has recorded a relatively rapid growth, and our core competitiveness has been further improved. As of the end of the reporting period, the Company had 103,841 corporate customers, representing an increase of 10,414 corporate customers or 11.15% as compared with that at the end of last year; balance of corporate loans was RMB612.462 billion, representing an increase of RMB9.204 billion or 1.53% as compared with that at the end of last year.

The Company made positive responses to the changing situation, grasped opportunities offered by the entry of China’s economy into a new era, implemented the strategy of China to support the development of emerging industries and promote the transformation and upgrade of industrial structure, advanced business transformation and development, and made new breakthroughs. During the reporting period, the Company actively supported the transformation, upgrade and high-quality development of the manufacturing industry, continuously enriched and improved systematic financial solutions for the intelligent manufacturing featured by “financing with capital, goods and services”, and thoroughly developed itself into an “intelligent manufacturing service bank”. As at the end of the reporting period, the credit balance for the intelligent manufacturing segment of the Company was RMB58.486 billion, representing an increase of 9.36% as compared with that at the end of last year.

(2) *International business*

During the reporting period, the Company completed the international settlement in an amount of US\$39.636 billion, and achieved an intermediary business income of RMB322 million by holding to the platform-based and Internet-based development concept, strengthening product innovation and improving service experience. All of our businesses developed in a steady and healthy manner to effectively support the foreign trade real economy.

With respect to the sub-segments of the foreign trade industry, the Company strengthened platform-based model innovation and created a comprehensive service platform integrating settlement, financing and exchange rate risk aversion to satisfy the customers' comprehensive financial needs for local and foreign currency as well as domestic and foreign trade. During the reporting period, the Company launched the platform-based service models of Freight Forwarding Connect (貨代通), Pooled Chain Connect (池鏈通) and Export Financing Easy Loan (出口融易貸).

The Company persisted in the Internet + innovation concept and optimized the online services for international business through multiple channels. The Company launched featured online functions including “Yongjin Global Transfer (湧金全球匯)” for cross-border remittances, “Yongjin Export Pool (湧金出口池)” for trade financing, “Zheshang Trading Treasure (浙商交易寶)” for foreign exchange transactions, and express issuance of import Letters of Credit via the online banking service, thus creating the “Always Online” high-quality service experience.

The Company continuously enriched “Zheshang Huiliying (浙商匯利盈)”, a product providing agency services for foreign exchange transactions, and continuously optimized “Zheshang Trading Treasure (浙商交易寶)”, a trading terminal for online foreign exchange transactions of enterprises to help enterprises cope with exchange rate fluctuation risks effectively. During the reporting period, the amount of foreign exchange transactions conducted by the Company on behalf of customers reached US\$20.648 billion, of which the transaction amount of “Zheshang Trading Treasure (浙商交易寶)” was US\$4.948 billion.

(3) Corporate liquidity service bank

With a focus on creating value for customers, the Company innovated the applications of financial technologies including the Internet, block chain etc. Based on the platform-based service model and concept, the Company constructed the pooled financing platform, Yiqiyin (易企銀) platform and accounts receivable chain platform. By relying on the aforesaid bottom-layer service platforms, it innovatively launched scenario-based applications such as Yong Jin Treasure (湧金司庫), Order Connect (訂單通), Manifest Connect (倉單通), Instalment Connect (分期通) and special credit models of “A+B” and “H+M”, so as to help the enterprises mobilize their internal and external resources, develop a supply chain ecosystem and reduce their leverage and costs, and thus constructed a “corporate liquidity service bank”.

1. Pooled financing platform

The Company paid close attention to the two core needs of enterprises of “reducing financing costs and improving service efficiency” and launched innovative “pooled” and “online” financing business models. The Company introduced the online supply chain finance “1 + N” solution and “Zhizhen Loan (至臻貸)” based on the “three pools” (namely, Yongjin Bill Pool (湧金票據池), Yongjin Asset Pool (湧金資產池) and Yongjin Export Pool (湧金出口池)), which formed a relatively complete set of comprehensive corporate liquidity financial service solutions to help enterprises revitalize current assets such as bills receivables and accounts receivables and realize online operation, self-service financing, withdrawal on demand and loan revolving available, thus reducing their provisions of funds and total amount of loans, lowering their corporate financing leverage, reducing their interest expenses, and lowering their financing costs. As at the end of the reporting period, the Company had 24,092 contracted customers of Asset Pool (Bill Pool), representing an increase of 8.08% as compared with that at the end of last year, with a pooled asset balance of RMB353.408 billion, representing an increase of 0.78% as compared with that at the end of last year, and the financing balance under the pool was RMB308.012 billion, representing an increase of 2.09% as compared with that at the end of last year.

2. *Yiqiyin platform*

Yiqiyin (易企銀) platform is an innovative and comprehensive financial service platform that provides cost-reducing, efficiency-increasing, safe and efficient services for its members and upstream & downstream enterprises, based on the innovative philosophy of “Internet + Real-economy Enterprise + Financial Service”, by integrating professional technologies such as settlement, credit, financing, etc., and innovating upon the cooperation model with group enterprises, core supply chain enterprises and Internet transaction platforms. The Bank provides custody services, liquidity services and individualized services for Yiqiyin (易企銀) platform, which can facilitate online financing and cost reduction of upstream & downstream enterprises of the supply chain, and support core enterprises to build up a good supply chain ecosystem. As at the end of the reporting period, the Company had 265 Yiqiyin (易企銀) platforms, representing an increase of 13.25% as compared with that at the end of last year and the total financing amount from the platforms reached RMB61.633 billion, representing an increase of 67.55% as compared with that at the end of last year.

3. *Accounts receivable chain platform*

The accounts receivable chain platform is another significant innovation of the Bank by applying the block chain technology to its corporate accounts receivable business to enhance the corporate liquidity services. It is an enterprise-bank cooperation platform dedicated to handling the issuance, acceptance, confirmation, payment, transfer, pledge and redemption of corporate accounts receivable, which is designed and developed by the Bank on the basis of innovative technologies such as Internet and block chain, and for the purpose of solving the pain points and difficulties in relation to corporate accounts receivables. Through such platform, corporate accounts receivables can be converted to electronic payment settlement and financing instruments, helping the enterprises easily mobilize liquid assets, reduce payables, activate receivables, realize “reducing leverage and costs”, assisting enterprises in reducing costs and increasing efficiency, and reducing difficulties and high costs of small and medium enterprises’ financing. As at the end of the reporting period, the Company had 1,848 accounts receivable chain platforms which were put into operation, representing an increase of 31.06% as compared with that at the end of last year, and the confirming balance of accounts receivable chain of the blockchain was RMB72.270 billion, representing an increase of 10.00% as compared with that at the end of last year.

2. **Inter-bank financial segment**

(1) *Business overview*

For the inter-bank financial segment, the Company provided our basic customers with diversified financing solutions based on the financial market by adhering to the development concept of “returning to the origin, deepening transformation, serving the overall and strengthening compliance” and taking “serving the real economy” as the core objective.

(2) *Financial market business*

In terms of financial market business, the Company continued to build a comprehensive FICC (Fixed income, Currency & Commodity) trading platform which integrates proprietary investment and financing, proprietary trading and commissioned trading, and continuously strengthened its capabilities of innovating on cross-border, cross-market and cross-asset-class business and its abilities to serve customers. The Company coordinated its corporate business, retail business and inter-bank business lines and branches for promoting the development of business. All kinds of business licenses are available, covering multiple domestic and foreign markets for fixed income, foreign exchange, precious metal, commodity, etc., and there are various products including bond trading, foreign exchange transaction, physical gold transaction and precious metal transaction, etc. The Company also provided relevant agency and commissioned services for customers, such as Bond Trading Connect (債券通), agency in bond bidding, foreign exchange transaction agency (代客外匯), precious metal transaction agency, etc. Since 2019, the Company has successfully obtained the inter-bank foreign currency transaction market maker qualification, the inter-bank RMB/FX forward and swap market maker qualification at foreign exchange market, and the financial category membership of Shanghai Gold Exchange, thus further expanding the room for the development of financial market businesses of the Bank.

For local currency transactions, in the first half of 2019, the local currency interest rate bond market (本幣利率債市場) was characterized by an upward followed by a downward trend. In response to changes in market environment, the Company adjusted its bond investment strategies in a timely manner and increased the bond durations properly.

For foreign currency transactions, the Company enhanced research and judgment on the foreign exchange market, and achieved comprehensive development of spot, swap and option businesses. It conducted risk diversification by using diversified trading portfolio strategies, and actively carried out foreign exchange agency businesses to meet customers' demands and provide liquidity to the market. During the reporting period, the trading volume of the Company in the inter-bank foreign exchange market reached US\$631.193 billion, representing a period-on-period increase of 35.55%. For foreign currency dominated bonds, as the yields on sovereign bonds of overseas developed countries continued to decrease due to the decline in global economic growth, and the credit spread of Chinese enterprises was greatly narrowed as compared to that at the beginning of the year, our Bank reduced the size of foreign currency bonds dominated properly.

For precious metal transactions, the Company effectively captured trends of the precious metal market and opportunities of price differences between domestic and foreign markets and differences between future and spot prices, and actively conducted precious metal transactions, especially silver transactions. During the reporting period, the amount of precious metal transactions made by the Company reached 43,525.27 tons, representing a period-on-period increase of 37.54%. During the reporting period, the Company ranked among top 10 companies in terms of proprietary trading of gold both in Shanghai Gold Exchange and Shanghai Futures Exchange, and the proprietary trading of silver ranked among the best.

(3) Capital market business

During the reporting period, the Company actively complied with requirements of regulatory policies, and took initiatives to adjust its business structure and development direction according to policy orientations as well as internal and external operation situations. The Company actively promoted its financial supply-side structural reform, continuously improved its products and services system by keeping a foothold of the needs of the real economy, enhanced its abilities for design of investment and financing solutions, with a view to serving the transformation and upgrading of traditional industries and cultivating a new momentum for economic growth. The Company actively promoted leading enterprises in promising industries to carry out market-oriented and legalized debt-to-equity swap, served the enterprises in optimizing their financial structure, reduced their leverage level and improved their corporate governance. The Company kept enhancing its business risk management ability, continued to improve the monitoring and management of market risks and credit risks, and actively optimized its assets structure and customer structure, with a view to further enhancing a sound and compliant business development.

(4) *Inter-bank business*

During the reporting period, as for the financial inter-bank business, the Company actively adapted to the new situation, focused on the “Two Most” overall objective and the full asset operation strategy, insisted on the transformation target of “serving basic customers and enhancing assets sales”, and took advantage of the channels and platforms by relying on the financial inter-bank customers, with a view to achieving cross-domain sales of products and output of services, and improving the assets turnover speed across the Bank.

In terms of inter-bank investment, the Company insisted on serving our basic customers, provided comprehensive financing solutions based on the financial market through multiple approaches, and gave full play to the leverage effect of driving other businesses by investments. In terms of liability management, the Company optimized the inter-bank deposit structure, and adjusted the response strategies timely according to changes in market capital costs. As of the end of the reporting period, sources of inter-bank funds were stable, with a liquidity coverage better than the level of the bank industry.

In terms of customer group construction and product innovation, the Company deeply implanted the platform gene, enriched the application scenarios faced to the inter-bank customers, developed innovative business models suitable for inter-bank customers, solved the liquidity needs of small and medium-sized banks, and strengthened the customer base.

(5) *Asset management business*

The Company’s asset management business is centered on serving our customers professionally, aiming to build a professional platform that is equipped with cross-market and multi-tool applications, the professionalism and efficiency of which are leading among our peers, which provides one-stop solutions to fulfill customers’ investment and financing needs. The Company positively accommodated to market and policy changes, attached importance to advancing the optimization of asset structure and customer structure, made full efforts to satisfy various investment and financing needs of individuals, companies and inter-bank customers, and strived to build a respected asset management business brand featured by “professional management, customer first, differentiated competition and efficiency priority”.

As of the end of the reporting period, the balance of our wealth management products amounted to RMB342.097 billion, representing an increase of 0.52% as compared with that at the beginning of the year, wherein, the proportion of funds for the individuals, companies and inter-bank customers respectively represented an increase of 3.19 percentage points, a decrease of 20.35 percentage points and a decrease of 16.98 percentage points, respectively, as compared with that at the beginning of the year. During the reporting period, the Company issued wealth management products with an amount of a total of RMB355.671 billion, representing a decrease of 8.56% on a period-on-period basis, and gained the fee income from asset management business of RMB490 million.

During the reporting period, the Company continued to develop its assets management brand, and was awarded the “Deputy Director Unit of Best Committee of China Banking Association (中國銀行業協會最佳專業委員會副主任單位)” by China Banking Association, and was elected as a member of the third standing committee of the China Banking Association Finance Committee (中國銀行業協會理財專業委員會).

(6) *Investment banking business*

For the investment banking business, with focus on basic customers, the Company made innovative use of its investment banking products to construct a direct financing service bank, and continuously enhanced its market competitiveness and influence. During the reporting period, the Company continuously innovated and improved investment banking products and business models which met market demands. It successfully used various mature and innovative products in the inter-bank market and enhanced its management of investor relations. It made efforts to provide customers with direct financing services through the investment banking business and continued to serve the real economy. Acting in the capacity of sole lead underwriter, joint lead underwriter, management services and otherwise, the Company underwrote various direct financing instruments such as local government bonds, financial bonds, corporate bonds and asset-backed securities in a total amount of RMB86.758 billion in the first half of 2019.

The Company was granted the “2019 Tianji Award of Banking Investment Business of Universal Banks in China (2019年度全能銀行投行業務天璣獎)” and the “2019 Tianji Award of Bond Underwriting Bank in China (2019年度債券承銷銀行天璣獎)” by Securities Times for its investment banking business.

(7) *Asset custodian business*

During the reporting period, the Company’s asset custodian business developed in a healthy and steady manner. As of the end of the reporting period, the assets balance held in custody by the Company reached RMB1.61 trillion, of which the assets of the public securities investment fund held in custody reached RMB149.994 billion, representing a period-on-period increase of 44.62%. During the reporting period, the Company’s income from the custodian business was RMB0.280 billion.

During the reporting period, the Company’s asset custodian business adhered to the general concept of “doing a custodian business with ideas of investment banking”. The Company increased the marketing of various key custodian products, and continuously improved contributions of the custodian business to the intermediary business income of the Bank. At the meantime, the Company continuously improved the product line of public funds custodian business, closely followed the market conditions and innovative hotspots, and cooperated with fund companies to lay out all kinds of funds and expand the size of public funds custodian business. During the reporting period, on the basis of continuously updating existing systems for custodian business, the Company continued to increase its investment in system R&D resources and improve functions of these systems. Currently, it has established a featured custodian business service platform consisting of three functional systems: custodian business support, custodian business processing and public network service of custodian business. Meanwhile, the Company improved the custodian operation efficiency and customers’ satisfaction of its services through continual optimization of the business process of its custodian operation.

3. Large retail segment: small enterprise business

During the reporting period, the Company actively promoted the platform-based operation and Internet-based transformation of small and micro enterprise finance, continuously improved the service ability for small and micro enterprise finance, and over-fulfilled the regulatory objectives of “two increases and two controls” in sequence and on schedule. As of the end of the reporting period, the balance of small and micro enterprise loans under inclusive finance was RMB157.618 billion, representing an increase of RMB17.040 billion or 12.12% as compared with that at the beginning of the year, which is faster than the growth rate of loans by domestic institutions in the same period; the number of borrowers reached 81.2 thousand, representing an increase of 7.0 thousand as compared with that at the beginning of the year; the interest rate level of small and micro enterprise loans was relatively stable and met the regulatory objective; the asset quality remained excellent, and the non-performing asset ratio of small and micro enterprise loans under inclusive finance was 1.06%. The Company ranked among the leading national commercial banks^{note} in terms of the proportion of small and micro enterprise loans with the total credit line of RMB10 million or less granted to an individual customer and asset quality.

Advancing the platform-based operation in an orderly manner and expanding the new channels for business growth. The Company actively applied the “three major platforms”, accelerated product innovation and promotion, drove the implementation of new businesses such as Easy Finance (點易融) for small and micro enterprises, launched the asset pool service for small and micro enterprises, and strengthened the development of platform-based projects such as the core enterprise industry chain projects. As of the end of the reporting period, the total number of small and micro business customers served by the Company by applying the “three major platforms” reached 7,487, representing an increase of 1,634 as compared with that at the beginning of the year, accounting for 30% of new customers of the “three major platforms”; and the number of platform-based projects including core enterprise industry chain projects was 169.

Continuously supporting the development of new economy and helping the transformation and upgrading of small and micro enterprises. Featured products including “Zhizao Loan (智造貸)” was used to support the development of intelligent manufacturing industry. As of the end of the reporting period, the Company granted the “Zhizao Loan (智造貸)” of RMB0.609 billion to finance the industrial upgrading of 790 small and micro business customers. The Company innovatively launched the financial service solution for industrial parks of small and micro enterprises, and carried out “head office to head office” cooperation with excellent developers nationwide in designing more flexible product mixes according to characteristics of different parks to support the development of various small and micro enterprises in the parks. As of the end of the reporting period, the Company has carried out 183 industrial park projects for small and micro enterprises and granted a total credit line amounting to nearly RMB23.8 billion.

Accelerating the online transformation of business and enhancing the service experience of small and micro business customers. The Company promoted the platform-based services including payroll credit by “e-banking” and small and micro asset pool business among small and micro business customers so as to provide them with more convenient and low-cost financial services, exploring a “win-win” route for small and micro finance. The Company actively developed the online products, strengthened promotion of the new-generation online processes to increase the electronic ratio in customer and business while saving operation costs and resources. As of the end of the reporting period, total online credit for small and micro business customers reached RMB22.4 billion.

Note

Including 6 state-owned large-scale commercial banks and 12 nationwide joint-stock commercial banks.

4. Large retail segment: retail banking business

For retail banking business, the Company persisted in the “Two Most” overall strategic objective, taking the new development concept as a guideline and focusing on customers. The Company positively embraced the Internet, insisted on innovation of financial technologies, strengthened the application of financial technologies including big data, block chain and artificial intelligence, and accelerated exploration into a platform-based development path, with a view to making full efforts to create a “platform-based wealth management bank”.

As of the end of the reporting period, the total amount of personal financial assets in the Company reached RMB444.671 billion, representing an increase of 7.68% as compared with that at the beginning of the year; and the total number of effective personal customers was 4,697.6 thousand, representing an increase of 3.26% as compared with that at the beginning of the year.

(1) Personal deposit and loan business

The Company continuously enhanced the expansion of personal deposit products, which led to the continual increase in personal deposit size. As of the end of the reporting period, the balance of personal deposits of the Company was RMB123.354 billion, representing an increase of 26.31% as compared with that at the beginning of the year. It achieved stable and rapid development of personal loan business by continuous online and offline marketing of basic and innovative personal loans and use of technologies for risk control. As of the end of the reporting period, the balance of personal consumption loans (excluding overdraft balance of credit cards) and personal housing loans was RMB99.568 billion, representing an increase of 32.10% as compared with that at the beginning of the year, with a non-performing loan ratio of 0.38%, which means that the quality of assets remained at a good level with average yield of 7.10%, representing a significant increase in revenue.

(2) Wealth management

The Company is committed to meeting the integrated financial needs for customer development and accelerated the exploration into a platform-based development path through financial technology so as to provide customers with comprehensive liquidity solutions. During the reporting period, the Company launched the net-value wealth management products such as Shengxin Win (升鑫赢) and Juxin Win (聚鑫赢), continuously improving its wealth management abilities.

As of the end of the reporting period, the balance of personal wealth management of the Company was RMB309.559 billion, representing an increase of 34.23% as compared with the same period of last year and accounting for 90.49% of the total wealth management balance of the Bank.

(3) Private banking

During the reporting period, the Company enhanced its ability to serve customers, increase wealth and allocate assets by improving the three main systems, namely product, featured value-added service and professional team, thus developing the core competitiveness of private banking. It successively launched many private-banking investment and wealth management products with controllable risks, higher earnings and diversified terms. The Company made efforts to develop unique value-added services including “airport and high-speed rail 7x24 hours free car pickup” service and customized activities for ultra-high net worth customers. As of the end of the reporting period, the number of private banking customers with daily average financial assets in a month equal to or exceeding RMB6 million reached 7,387, representing an increase of 9.07% as compared with that at the beginning of the year.

(4) Credit card business

For credit card business, the Company drew on and applied the Internet thinking, and committed itself to promoting the construction of credit card business system and sustainable development; it satisfied the differentiated needs of customers via the flexible portfolio of products, rights and interests etc., and provided comprehensive financial service solutions for customers; it launched the “endless” series themed card and Zengjin Card (增金卡) and collaborated with Ant Financial in launching the Ant Manor co-branded card, with a view to continuously diversifying our credit card product system; it launched the all-in-one express credit business to allow the application for credit card, debit card and specific instalment business in one form, thereby continuously enhancing customer experience; it strengthened the expansion of instalment scenarios, optimized and launched the MBA tuition instalment business, with a view to continuously improving the instalment product system; it continuously developed and optimized the “interesting discovery” branded theme, carried out nationwide marketing activities including 12306 worry-free travel, NetEase Yanxuan, online big sale season etc., continuously enriched the card use scenarios, particularly creating the online scenarios, so as to enhance customer stickiness and deepen brand awareness.

As of the end of the reporting period, the total number of credit cards issued by the Company was 3,617.3 thousand, including 137.3 thousand credit cards issued during the reporting period; the cumulative consumption amount was RMB46.286 billion, representing a period-on-period increase of 76.16%; and the revenue was RMB700 million, representing a period-on-period increase of 145.69%.

5. E-finance and electronic banking

(1) E-finance

During the reporting period, for the e-finance business, the Company gave priority to the needs of real economy enterprises and the pain point requirements of customers, continuously perfected bottom-layer products, and innovated technological applications and business models with a focus on creating customer value. According to features of application in various real production and living scenarios, it designed and provided a scenario scheme and a personal-corporate business linkage scheme based on technical solutions to improve the financial service ability.

(2) Electronic banking

The Company has formed a complete electronic banking service system consisting of online banking, mobile banking, telephone banking, WeChat banking and self-service banking. The replacement rate of electronic banking channels reached 98.91%, representing a leading position in the industry.

Online banking

During the reporting period, the Company continuously optimized the 4.0 version of personal online banking, completed the channel consistency construction of the PC terminal, and realized the comprehensive upgrading of the “Wealth Management” and “Daily Life” modules. Being customer-oriented, the Company focused on simplifying operations of frequently used functions, enriched channel service scenarios, enhanced interactive intelligent application to improve customer experience and extend customer channel services through active application of advanced technologies including big data and artificial intelligence. As of the end of the reporting period, the number of customers of the Company with a personal online banking certificate reached 1,233.6 thousand, representing a period-on-period increase of 36.48%, and the number of transactions conducted through personal online banking for the reporting period reached 46,343.6 thousand, with the transaction amount of RMB423.777 billion.

During the reporting period, based on the genuine need of enterprises, the Company continuously optimized the functions of corporate online banking, improved the ability to serve corporate groups, and innovatively launched the function of “licensed roles” to realize the personalized customization of customers. The Company continuously simplified operations of frequently used functions and intelligentized channel routing, so as to further reduce customer operations and optimize customer experience. As of the end of the reporting period, the number of customers of the Company with a corporate online banking certificate reached 125.3 thousand, representing a period-on-period increase of 20.37%, and the number of transactions conducted through corporate online banking for the reporting period reached 28,733.2 thousand, with the transaction amount of RMB5,058.166 billion.

Mobile banking

During the reporting period, the 4.0 version of the Company’s personal mobile banking APP was newly launched, which realized APP integration and comprehensive upgrading of the “Wealth Management” and “Daily Life” modules to create the “one-stop” service experience. The Company further promoted the application of intelligent technologies, further reduced manual operations by newly increasing technological applications such as intelligent voice and OCR identification, and enhanced the intelligent level of main interactive modes including login, search and trade, so as to further increase the efficiency of use by customers. “Financial calendar”, “Zengjin Smart Investment (增金智投)”, “smart deposit”, “personalized post” and other functions were added so as to further enrich channel service scenarios and enhance customer stickiness. As of the end of the reporting period, the number of personal mobile banking customers of the Company was 3,006.0 thousand, representing a period-on-period increase of 54.37%. During the reporting period, the 2.0 version of the Company’s corporate mobile banking APP was newly launched to provide collaborative support for the corporate online banking, and create a mobile financial management tool for the corporate management personnel.

Telephone banking

The Company upheld a service concept of “centering on customer needs and providing beyond expectation service” to develop an intelligent customer service center. The Company provided customers with 7x24 hours comprehensive high-quality services through promoting construction of intelligent customer service system, optimizing business process and continuously improving service experience.

As of the end of the reporting period, a total number of 1,710.5 thousand calls from customers was addressed, among which 964.7 thousand calls were transferred to manual service, with an overall get-through rate of 87.43% and a customer satisfaction rate of 99.71%; 413.5 thousand times of intelligent online customer service were provided to the customers, with a service response rate of 99.63% and a diversion rate of intelligent online customers of 21.72%; and the complaint resolution rate was 100%.

WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform where new types of financial services will be provided and the brand will be marketed. WeChat banking consists of the WeChat official account and the WeChat official mini app. WeChat official account provides functions like debit card, credit card, online customer service etc. WeChat official mini app provides services such as wealth management, gold and foreign exchange settlement and sales information as well as the function of making appointments for services. As of the end of the reporting period, the number of WeChat banking users of the Company was approximately 1,534.0 thousand and messages sent by WeChat banking were read over 410 thousand times.

Self-service banking

During the reporting period, the Company continued to push forward the construction of traditional self-service equipment. It provided automated teller machines, cash recycling systems and other 7x24 hours self-service banking services so as to fully satisfy customers’ needs to deposit, withdraw and transfer money, check balance, change password as well as other needs. Meanwhile, in order to vigorously promote the construction of intelligent outlets and meet customers’ needs for opening an account via self-service banking, the Company provided the outlets with a large customer flow and a high volume of businesses with intelligent self-service machines such as intelligent teller machines, intelligent printers and online queuing machines, which greatly relieved the problem of long-time queuing. As of the end of the reporting period, the Company had 248 self-service banks providing 7x24 services and 1,600 self-service machines of various types in the outlets.

6. Business of Hong Kong Branch

During the reporting period, with the advantage of cross-border linkage with the parent bank, Hong Kong Branch continuously focused on strategic opportunities including the “Guangdong-Hong Kong-Macao Greater Bay Area” and the “Belt and Road Initiative”, and provided professional cross-border financial solutions and financial services for high-quality “going global” customers who met requirements of national policies. Through close cooperation with banking peers, the Company implemented trade finance, bilateral loan, syndicated loan and other projects, which were influential in the industry. Meanwhile, it was also engaged in financial market business activities including trading agency, proprietary trading, banking account bond investments and monetary market transactions. During the reporting period, Hong Kong Branch made progress in developing featured businesses. Based on the platform banking concept, the online banking system and asset pool of Hong Kong Branch were put into operation smoothly, laying a foundation for innovative development of its business.

As of the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK\$25.889 billion, of which financial assets at fair value through other comprehensive income amounted to HK\$7.554 billion, accounting for 29.18%; amounts due from head office and overseas offices amounted to HK\$6.97 billion, accounting for 26.92%; loans and advances to customers amounted to HK\$5.896 billion, accounting for 22.77%; placements with banks amounted to HK\$2.707 billion, accounting for 10.46%; and trade bills amounted to HK\$2.011 billion, accounting for 7.77%. During the reporting period, the operating income was HK\$191 million.

(VIII) INFORMATION ABOUT A MAJOR SUBSIDIARY

As a subsidiary controlled by China Zheshang Bank, Zheyin Financial Leasing obtained its business license on January 18, 2017, with a registered capital of RMB3 billion. Its business scope covers leasing, transfer of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of three months (inclusive) or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leasehold, economic consulting as well as other businesses approved by CBIRC. As of the end of the reporting period, Zheyin Financial Leasing had 90 employees in total with a total asset of RMB26.364 billion and net asset of RMB3.386 billion. During the reporting period, it realized a net profit of RMB196 million.

(IX) OUTLOOK

Looking into the second half of 2019, the Company will thoroughly implement the spirit of the 19th National Congress of the Communist Party of China to stay true to its original aspiration and keep the mission firmly in mind; focus on the “Two Most” overall objective; further optimize its full asset operation; accelerate the cultivation of new growth momentum; and promote a high-quality growth in a unwavering manner. By leveraging Fintech, the Bank will lead the digital transformation, and improve its ability to absorb, transform and practice Fintech in all aspects. The Bank will constantly innovate in application and marketing, and continue to create highlights through deeply constructing a platform-based service bank, and enriching application scenarios. The Bank will also comprehensively promote the development of new retail business to expand our customer base, improve our service and create values. The Bank will further strengthen the ability of risk control, promote the internal lean management level and improve the professional ability of service, so as to better serve the real economy and achieve steady and sustainable development.

CORPORATE GOVERNANCE

(I) OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, the Company endeavored to establish a corporate governance mechanism which clearly defines duties, ensures checks and balances as well as orderly coordination, brings about democracy in decision-making and operates in a standard and efficient way. The bottom line of the Company's corporate governance is to comply with laws and regulations and the basic aim is to improve the corporate governance system by reference to the best practices of outstanding companies, while centered on giving play to the decision-making role of the Board and guarded by the strengthening of the supervision role of the Board of Supervisors. The Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, the Senior Management and other governing bodies operated independently and in a coordinated manner, while providing check and balance on and cooperating with each other.

During the reporting period, a total of 26 meetings were held, including two shareholders' meetings, two class meetings of shareholders, three Board meetings, 11 meetings of special committees of the Board, four meetings of the Board of Supervisors, and four meetings of special committees of the Board of Supervisors. At the aforesaid meetings, the Company considered and approved the annual report of the Company, the work reports of the Board of Directors, the Board of Supervisors and the president, the final account report, the financial budget report, the profit distribution plan, the related party transaction report, the extension of the validity period of the A-share offering and listing plan and other material proposals.

During the reporting period, according to requirements of domestic and foreign regulatory authorities, the Company further improved the corporate governance system by amending the Articles of Association of China Zheshang Bank Co., Ltd., the Rules of Procedure for the Audit Committee of the Board of China Zheshang Bank Co., Ltd. (2019 Version) and other systems and measures.

(II) SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company held the 2018 Annual General Meeting, the 2019 First Class Meeting for Domestic Shareholders and the 2019 First Class Meeting for H Shareholders on May 27, 2019. For details of relevant proposals and relevant announcements about the resolutions adopted at the meetings, please refer to the circular for the general meetings dated April 11, 2019 and poll results announcement dated May 27, 2019 in connection with the general meetings published by the Company on the websites of Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings above are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The Chairman of the meetings has explained the detailed procedure for voting by poll to the Shareholders at the general meetings. Lawyers attended the meetings for onsite witnessing and provided legal opinions on the meetings.

(III) MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, the Board organized and convened three Board meetings, at which 50 resolutions were considered and approved and four special reports were heard.

During the reporting period, the special committees of the Board organized and convened a total of 11 meetings, including one meeting by the Strategic Committee, one meeting by the Audit Committee, five meetings by the Risk and Related Party Transaction Control Committee, two meetings by the Nomination and Remuneration Committee, one meeting by the Consumer Rights Protection Committee, one meeting by the Inclusive Finance Development Committee, at which 50 resolutions were considered and approved and two special reports were heard.

(IV) MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Company held a total of four meetings of the Board of Supervisors, at which 17 resolutions were considered. The special committees of the Board of Supervisors convened a total of four meetings, including one meeting by the Supervision Committee where four resolutions were considered and three meetings by the Nomination Committee where four resolutions were considered.

(V) BOARD DIVERSITY POLICY

In accordance with relevant provisions of the Hong Kong Listing Rules, for the purpose of Board diversity, the Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd., providing that in setting up the composition of the Board, it shall consider various diversifying factors, including but not limited to gender, age, culture, educational background, professional experience, skill, knowledge and/or length of service. The Company will also, from time to time, take into account its business models and other specific requirements as well as a balanced inclusion of executive and non-executive Directors.

The Board carefully reviewed its diversity as well as the independence of its independent non-executive Directors, and believed that its diversification construction complied with relevant provisions under the Hong Kong Listing Rules and other laws and regulations, met the requirements for the Company to achieve strategic targets and sustainable development, and that all of the independent non-executive Directors had the requisite independence to act as independent non-executive Directors.

(VI) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company has always been attaching high importance to information disclosure, and has been strictly complying with various regulatory rules of the places where its shares are listed. In addition to fully implementing various regulatory rules, the Company has been, by taking into account day-to-day business practices, continuously sorting and improving the implementation rules with respect to the management of information disclosure from the perspectives of system construction and work procedure design.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. Information disclosure management system has been put in place, which designated the department responsible for inside information management and provided that information shall be disclosed in a timely and compliant manner pursuant to the requirements and procedures under the Hong Kong Listing Rules.

During the reporting period, the Company, by strictly abiding by relevant information disclosure laws and regulations, disclosed information in a truthful, accurate, complete and timely manner. A total of 37 various announcements were released simultaneously on the websites of the Hong Kong Stock Exchange and the Company, ensuring equal access for all shareholders to relevant information of the Company and enhanced transparency of corporate governance.

(VII) MANAGEMENT OF INVESTOR RELATIONS

The Company made consistent efforts to improve the management of investor relations and to promote the alignment between market value and intrinsic value. With an aim of maximizing investors profit and protecting their legitimate rights and interests, the Company cultivated a corporate culture to serve and respect investors. Sound interaction between the Company and the investors was also encouraged so as to enhance investors' understanding and recognition of the Company.

During the reporting period, by taking advantage of the press conference for 2018 annual results announcement, the Company strengthened its communicating and marketing efforts in both domestic and overseas markets by having in-depth exchanges with investors and analysts and timely addressing investors' concerns, therefore effectively expanding the scope of investors that were covered.

During the reporting period, the Company adopted various means to carry out investor relations management and consistently improved the service level of investors in accordance with the regulatory requirements of the listing place, taking into account practical experience. The Company accepted and handled matters related to investor relations by way of reverse roadshow, investor relation websites, telephone, e-mail and other means, and addressed and provided feedback on questions raised by investors in a timely manner, which effectively promoted a deeper understanding of the Company's value by investors and analysts on investment and enhanced the Company's influence in the capital market.

In order to get the attention and recognition from more investors, the Company consistently strengthened the management of the webpage for investor relations, timely updated the content of such webpage and made efforts to improve the collection of investor information. The Company also tracked in a timely manner analyst reports, monitored on a dynamic basis media and public opinions and earnestly understood from the capital market its advice and recommendation on the operation and development of the Company.

(VIII) SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct for securities transactions by Directors and Supervisors, which is not less rigorous than the Model Code set out in Appendix 10 of the Hong Kong Listing Rules. The Company has confirmed with all Directors and Supervisors and hereby acknowledged that they have been complying with the aforesaid code during the period from January 1, 2019 to June 30, 2019.

(IX) STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN THE HONG KONG LISTING RULES

The Company agrees to the principles as set out in Corporate Governance Code and Corporate Governance Report (Appendix 14 to the Hong Kong Listing Rules). From January 1, 2019 to June 30, 2019, the Company has been in full compliance with the provisions under such Code.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(I) CHANGES IN ORDINARY SHARES

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

Unit: Share, %

	December 31, 2018		Change in the number during the reporting period	June 30, 2019	
	Number	Proportion		Number	Proportion
Domestic Shares	14,164,696,778	75.67	–	14,164,696,778	75.67
H Shares	4,554,000,000	24.33	–	4,554,000,000	24.33
Total ordinary shares	18,718,696,778	100.00	–	18,718,696,778	100.00

Note:

1. As of the end of the reporting period, the Company had 29 holders of Domestic Shares in total and 132 holders of H Shares in total.

(II) SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF ORDINARY SHARES

Unit: Share, %

No.	Name of shareholders	Nature of Shareholder	Change in the shares during the reporting period	Number of shares held at the end of period	Shareholding proportion	Class of Shares	Number of pledged shares
1	HKSCC Nominees Limited ⁽¹⁾	–	+10,000	4,553,762,850	24.33	H Shares	unknown ⁽¹⁾
	in which: Zhejiang Seaport (Hong Kong) Co., Limited	–	–	864,700,000	4.62	H Shares	490,000,000
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned Legal Person	–	2,655,443,774	14.19	Domestic Shares	–
3	Traveller Automobile Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	1,346,936,645	7.20	Domestic Shares	–
4	Hengdian Group Holdings Limited	Domestic Non-State-owned Legal Person	–	1,242,724,913	6.64	Domestic Shares	–
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned Legal Person	–	841,177,752	4.49	Domestic Shares	–
6	Minsheng Life Insurance Company Ltd.	Domestic Non-State-owned Legal Person	–	803,226,036	4.29	Domestic Shares	–
7	Zhejiang Yongli Industry Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	548,453,371	2.93	Domestic Shares	548,453,371
8	Tong Lian Capital Management Co., Ltd.	Domestic Non-State-owned Legal Person	–	543,710,609	2.90	Domestic Shares	–
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic Non-State-owned Legal Person	–	518,453,371	2.77	Domestic Shares	502,414,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic Non-State-owned Legal Person	–	508,069,283	2.71	Domestic Shares	508,069,283

Note:

- (1) The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H Shares which were traded in its transaction system. Except for the 490,000,000 shares in the equity interest held by Zhejiang Seaport (Hong Kong) Co., Limited which were pledged, the Bank did not know whether the remaining shares were pledged.

(III) PLEDGE AND FREEZING OF ORDINARY SHARES

As of the end of the reporting period, to the knowledge of the Company, 4,926,997,953 shares of the Bank (representing 26.32% of the total number of ordinary shares in issue) were pledged; 1,991,643,538 shares were subject to judicial freezing.

(IV) INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of June 30, 2019, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest and short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interests (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	Domestic Shares	Long position	2,655,443,774	14.19	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Shares	Long position	2,655,443,774	14.19	18.75
Traveller Automobile Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Jiang Jinsheng ^{note 1} (蔣金聲)	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.20	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Qiu Jianlin (邱建林)	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Group Holdings Limited	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.64	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74
Lou Zhongfu (樓忠福)	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.10	6.74
Wang Shuifu (王水福)	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.54	6.00
Chen Guihua (陳桂花)	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.54	6.00
Chen Xiabin (陳夏鑫)	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.54	6.00
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.49	5.94
Zhejiang Provincial Energy Group Company Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.45	14.18

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interests	Approximate percentage of the relevant class of Shares
					(%)	(%)
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner	H Shares	Long position	365,633,000	1.95	8.03
Zhejiang Energy International Co., Ltd. (浙江能源國際有限公司)	Beneficial owner	H Shares	Long position	280,075,000	1.50	6.15
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.29	5.67
China WanXiang Holding Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67
Lu Weiding (魯偉鼎)	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.29	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.06	5.37
Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.06	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.00	5.28
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,000,000,000	5.34	21.96
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	864,700,000	4.62	18.99
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	864,700,000	4.62	18.99
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.99	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.99	20.51
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.66	15.04
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interests	Approximate percentage of the relevant class of Shares
					(%)	(%)
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.62	10.76
Hong Kong Xinhua Investment Co., Ltd.	Beneficial owner	H Shares	Long position	389,037,000	2.08	8.54
Xinhua Zhongbao Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
Zhejiang Xinhua Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
Huang Wei (黃偉)	Interest of controlled corporation	H Shares	Long position	389,037,000	2.08	8.54
FTLife Insurance Company Limited	Beneficial owner	H Shares	Long position	338,595,000	1.81	7.44
Tongchuangjiuding Investment Management Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	338,595,000	1.81	7.44
Tongchuang Jiuding Investment Holding Co. Ltd.	Interest of controlled corporation	H Shares	Long position	338,595,000	1.81	7.44
FTL Asia Holdings Limited	Interest of controlled corporation	H Shares	Long position	338,595,000	1.81	7.44
Bright Victory International Limited	Interest of controlled corporation	H Shares	Long position	338,595,000	1.81	7.44
Wu Gang (吳剛)	Interest of controlled corporation	H Shares	Long position	338,595,000	1.81	7.44
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.34	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.34	5.49
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	Long position	926,600,522 ^{note 2}	4.95	20.35
	Interest of controlled corporation	H Shares	Short position	926,374,271 ^{note 2}	4.95	20.34
CITIC Securities International Company Limited	Interest of controlled corporation	H Shares	Long position	926,600,522 ^{note 2}	4.95	20.35
	Interest of controlled corporation	H Shares	Short position	926,374,271 ^{note 2}	4.95	20.34
CLSA B. V.	Interest of controlled corporation	H Shares	Long position	926,600,522 ^{note 2}	4.95	20.35

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interests (%)	Approximate percentage of the relevant class of Shares (%)
	Interest of controlled corporation	H Shares	Short position	926,374,271 ^{note 2}	4.95	20.34
CITIC CLSA Global Markets	Interest of controlled corporation	H Shares	Long position	926,600,522 ^{note 2}	4.95	20.35
Holdings Limited	Interest of controlled corporation	H Shares	Short position	926,374,271 ^{note 2}	4.95	20.34
CSI Capital Management Limited	Beneficial owner	H Shares	Long position	926,600,522 ^{note 2}	4.95	20.35
	Beneficial owner	H Shares	Short position	17,403,890 ^{note 2}	0.09	0.38
CSI Financial Products Limited	Beneficial owner	H Shares	Short position	908,970,381 ^{note 2}	4.86	19.96
Goncius I Limited	Beneficial owner	H Shares	Long position	792,843,890 ^{note 2}	4.24	17.41
	Beneficial owner	H Shares	Short position	792,843,890 ^{note 2}	4.24	17.41

Notes:

- (1) As Traveller Automobile Group Co., Ltd., a shareholder of the Company, was temporarily unable to confirm its de facto controller, the disclosures of such information, such as the equity interests and short positions of that shareholder, were based on its shareholding structure information set out in the industrial and commercial registration.
- (2) This part involves derivative instruments. For details, please refer to the relevant information of disclosure of interests available on the website of the Stock Exchange.

(V) INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.19% of the shares of the Company and was the Company's largest shareholder of ordinary shares.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with a registered capital of RMB12.0 billion, and is a financial investment management platform established by Zhejiang Provincial Government. The company is a state-owned enterprise directly subordinated to the provincial government and is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial investment, government equity investment fund management, asset management and other business.

(VI) ISSUE AND LISTING OF SECURITIES

During the reporting period, the Company did not issue any new shares (including ordinary shares and preference shares).

(VII) INFORMATION ON OFFSHORE PREFERENCE SHARES

1. Issuance and listing of Offshore Preference Shares

Pursuant to the approval of the CBIRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360), the Bank made a non-public issuance of US\$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US\$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017 (Stock Code of Preference Shares: 4610).

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Pursuant to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBIRC and the CSRC, the proceeds raised from the Offshore Preference Shares issuance, after deducting issue expense, were all used to replenish the Bank's additional tier 1 capital, to increase the tier 1 capital adequacy ratio of the Bank and to optimize the capital structure.

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US\$/share)	Initial Annual Dividend Rate (%)	Issue volume (Share)	Total Issue Amount (US\$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	March 29, 2017	20	5.45	108,750,000	2,175,000,000	March 30, 2017	108,750,000

2. Relevant provisions with respect to the rights and interests of the Offshore Preference Shares have been included in the Company's Articles of Association, which can be found on the websites of the Hong Kong Stock Exchange and the Company.

3. Number of Shareholders and shareholding of Offshore Preference Shares

As of the end of the reporting period, the total number of shareholders (or nominees) of the Company's Offshore Preference Shares was one, with The Bank of New York Depository (Nominees) Limited being the nominee.

Name of Shareholders	Nature of Shareholders	Share Class	Increase/Decrease during the Reporting Period (Share)	Shareholding Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
The Bank of New York Depository (Nominees) Limited	Foreign legal Person	Offshore Preference Shares	108,750,000	100	108,750,000	–	unknown

Notes:

- (1) Shareholding information on shareholders of Offshore Preference Shares was provided based on the information specified in the register of shareholders of Offshore Preference Shares of the Bank.
- (2) As the issuance was an offshore non-public offering, what is set out in the register of shareholders of Offshore Preference Shares is the information on the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as a nominee on behalf of the placees in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as of the end of the reporting period.

4. Profit distribution for Offshore Preference Shares

The Bank paid the dividend in cash once a year to the holders of the Offshore Preference Shares. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in the distribution of the remaining profits with the holders of the Ordinary Shares.

According to the resolution and authorization of shareholders' general meeting, the Board meeting dated March 18, 2019 deliberated and adopted the Proposal for Distributing Dividends for Offshore Preference Shares, approving the Bank to distribute the dividends for Offshore Preference Shares on March 29, 2019. Pursuant to relevant laws and regulations of China, while distributing dividends for Offshore Preference Shares to offshore non-resident corporate shareholders, the Bank shall withhold and pay on their behalf the corporate income tax calculated on a tax rate of 10%. According to relevant terms and conditions with respect to the Bank's Offshore Preference Shares, relevant taxes and fees shall be paid by the Bank. The dividends for Offshore Preference Shares distributed this time totaled US\$131,708,333.33, including: US\$118,537,500 actually paid to shareholders of the Offshore Preference Shares according to an annual dividend yield of 5.45%; pursuant to relevant legal regulations, the corporate income tax withheld and paid on behalf based on a tax rate of 10% was US\$13,170,833.33.

For the implementation plan for the distribution of dividends for Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company.

The above dividend was paid in cash on March 29, 2019.

5. Redemption or conversion of Offshore Preference Shares

During the reporting period, no redemption or conversion occurred for the Bank's Offshore Preference Shares.

6. Resumption of voting rights for Offshore Preference Shares

During the reporting period, no resumption of voting rights occurred for the Bank's Offshore Preference Shares.

7. Accounting policies adopted for Offshore Preference Shares and the reasons thereof

In accordance with the *Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments* and the Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as *IAS 39 - Financial Instruments: Recognition and Measurement* and *IAS 32 - Financial Instruments: Disclosures and Presentation* formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares of the Bank meet the requirements for being accounted as equity instruments and will be accounted as equity instruments.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

(I) BASIC INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the end of the reporting period, Directors, Supervisors and Senior Management were as follows:

The Board comprised 17 Directors, including 3 executive Directors, namely Mr. Shen Renkang, Mr. Xu Renyan and Ms. Zhang Luyun; 7 non-executive Directors, namely Mr. Huang Zhiming, Mr. Wei Dongliang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming, Ms. Lou Ting and Mr. Xia Yongchao; and 7 independent non-executive Directors, namely Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang and Mr. Wang Guocai.

The Board of Supervisors comprised 11 Supervisors, including 3 shareholder representative Supervisors, namely Mr. Yu Jianqiang, Mr. Ge Meirong and Mr. Huang Haibo, 4 employee representative Supervisors, namely Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Jiang Rong, and 4 external Supervisors, namely Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Ms. Cheng Huifang.

The Senior Management comprised 11 members, namely Mr. Xu Renyan, Mr. Xu Manxuan, Mr. Wu Jianwei, Mr. Liu Long, Mr. Zhang Rongsen, Mr. Liu Guishan, Mr. Chen Haiqiang, Mr. Luo Feng, Mr. Sheng Hongqing, Mr. Song Shizheng and Mr. Jing Feng.

(II) INFORMATION ON THE APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, change of Directors was as follows:

Mr. Huang Xufeng resigned as a non-executive Director of the Bank due to other work arrangements, with effect from May 10, 2019.

During the reporting period, members of Supervisors had no change.

During the reporting period, change of the Senior Management was as follows:

On May 28, 2019, the senior management qualifications of Mr. Luo Feng and Mr. Sheng Hongqing for appointment as assistants to the president of the Company were approved by CBIRC, and they have duly performed their duties.

(III) CHANGE OF DIRECTORS AND SUPERVISORS

Mr. Zhu Weiming, a non-executive Director of the Company, serves as vice chairman of Donghai Marine Insurance Company Limited (東海航運保險股份有限公司) and chairman of Ningbo Shipping Exchange Co., Ltd. (寧波航運交易所有限公司).

Ms. Lou Ting, a non-executive Director of the Company, ceased to serve as a supervisor of Zhejiang Guangsha Co., Ltd. (浙江廣廈股份有限公司).

Mr. Zheng Jindu, an independent non-executive Director of the Company, serves as the president of the Tenth Council of Zhejiang Lawyers Association (浙江省律師協會).

Mr. Wang Chengliang, an employee representative Supervisor of the Company, serves as a member of the party committee of the Company.

As a result of monitoring system reforms of financial enterprises, Mr. Zheng Jianming, Mr. Wang Chengliang, Mr. Chen Zhongwei and Mr. Jiang Rong, employee representative Supervisors of the Company, ceased to serve as members of the discipline inspection commission of the Company.

(IV) EMPLOYEES

As of the end of the reporting period, the Group had 13,827 on-service employees, representing an increase of 119 as compared with that at the end of last year, of which 13,737 were employees of the Company (including non-permanent personnel of the Bank) and 90 were employees of the subsidiary of the Company, Zheyin Financial Leasing. Divided by the position types, 6,049 employees were categorised as marketing personnel, 1,546 employees as counter personnel, and 6,142 employees as mid-office and back-office personnel; divided by the educational levels, 2,837 obtained post-graduate degree or above (including 62 with doctorate degree), 9,684 obtained bachelor degree, and 1,216 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 64 employees had retired from the Company.

(V) EMPLOYEE REMUNERATION POLICY

The Company's remuneration policy is guided by its growth strategy and the people-oriented concept. By adhering to the principle of marketization and by implementing comprehensive benchmarking management, the Company proactively explores its remuneration management mechanism that the remuneration is determined according to the salary levels based on position types, and optimizes the remuneration determination mechanism that is based on individual performance and organizational performance. Employee remuneration is mainly driven by capabilities and performance and the Company strives to set up a market-based remuneration system, which would reflect internal fairness and external competitiveness, promote the co-growth of employees and employers, focus equally on incentives and restraints and base remuneration on post value.

The Company's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by the Company to its branches is linked with the realization status of overall benefits by such branches and the Company takes into account various kinds of risk factors so that the branch outlets would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and performance allocation methods are applied to different types of employees, and the deferment payment of the performance-based remuneration is implemented in accordance with the internal control principles of prudent operations and strengthened constraints with the payment time basically in line with the risk persistency period of the corresponding business. For employees in the risk and compliance departments, their remuneration is determined by taking into account their position value, abilities to perform duties and other factors, and such remuneration is not directly related to the matters under their regulation and remains independent of other business segments.

(VI) EMPLOYEES TRAINING

Trainings offered by the Bank is centered on our operation and development strategy with the aims of improving professional capabilities and performance. In addition to the all-staff training, we also attach high importance to the training of core, key and special talents by offering a variety of trainings, which aims to comprehensively improve management abilities and professional capabilities of our employees. During the reporting period, the Bank held 1,317 training courses in total with 149,796 attendances.

(VII) INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Yangtze River Delta Region	Headquarters	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province	95527	311200	1	1880
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	46
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	11	571
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	21	933
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	10	393
	Hefei Branch	Block A16, Financial Harbour Centre at the junction of Huizhou Avenue and Yangtze River Road, Baohe District, Hefei	0551-65722016	230611	1	140
	Hangzhou Branch	Block D, Zhujin Building, No.1 Minxin Road, Jianggan District, Hangzhou, Zhejiang	0571-87330733	310016	49	2,187
	Ningbo Branch	No. 555 Yangfan Road and No. 128 Wenkang Road, Gaoxin District, Ningbo	0574-81855678	315000	15	594
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	11	447
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166006	312030	9	417
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	6	236
	Zhoushan Branch	No. 111, Haiyu Road, Lincheng Street, Dinghai District, Zhoushan	0580-2260302	316021	2	95

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Bohai Rim Region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	14	809
	Tianjin Branch	No. 37, Youyi North Road, Hexi District, Tianjin	022-23271379	300204	12	515
	Shenyang Branch	No. 56, Qingnian Main Street, Shenhe District, Shenyang	024-31259003	110014	7	301
	Jinan Branch	No. 185, Heihuquan West Road, Lixia District, Jinan, Shandong	0531-80961706	250011	14	757
Pearl River Delta Region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	7	479
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, High-tech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	0755-82760666	518061	11	430
Midwestern China Region	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277306	450018	1	179
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	0731-82987566	410005	1	115
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430022	2	239
	Chongqing Branch	Block A, No. 1, Xingguang Avenue, Innovative & High-Tech Park, North New Zone, Chongqing	023-88280888	401121	9	428
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85579955	610023	14	461
	Guiyang Branch	No. 88 Yan'an Middle Road, Yunyan District, Guiyang	0851-85861088	550000	1	73
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	029-61833333	710075	11	521
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	0931-8172110	730030	9	440
Overseas	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	0852-28018282	999077	1	51
Total	-	-	-	-	251	13,737

SIGNIFICANT EVENTS

(I) PURCHASE AND SALE AND REDEMPTION OF SECURITIES

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

(II) USAGE OF PROCEEDS RAISED

The Company completed its initial public offering of H Shares in March 2016, issued Offshore Preference Shares in March 2017 and placed H Shares in March 2018. All proceeds raised were used as disclosed. As of June 30, 2019, the proceeds raised were all used for supplementing the Company's capital to meet the needs for sustained growth of our various businesses.

(III) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal litigations/arbitrations in the ordinary course of business, most of which were filed by the Company itself for the purpose of recovering non-performing loans. The above litigations/arbitrations also include those arising as a result of other disputes. As of the end of the reporting period, there were totally 21 pending litigations/arbitrations (excluding cases involving enforcement opposition) where the Company was a defendant, and the total value of these 21 litigations/arbitrations was about RMB168.8799 million. The Company expects that such pending litigations/arbitrations will not have a material adverse impact on the Company's business, financial position or operating results.

(IV) MATERIAL CONNECTED TRANSACTIONS

During the reporting period, we provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which included our connected persons (including certain shareholders, Directors, Supervisors, Senior Management and/or their respective associates). These transactions were entered into on normal commercial terms (or better terms in favor of the Company) in the ordinary and usual course of our business, and thus were fully exempt from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

We also enter into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or better terms in favor of the Company). Such transactions constitute de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempt from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company for the half year ended June 30, 2019 are set out in "Notes to Condensed Interim Consolidated Financial Information – 41 Related Party Transactions".

Saved as disclosed above, no related party transactions set out in "Notes to Condensed Interim Consolidated Financial Information – 41 Related Party Transactions" fall within the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(V) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Material custody, contracting and leasing

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

2. 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 CBIRC, there were no other significant guarantees that shall be disclosed.

(VI) MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have 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 during the reporting period.

(VIII) EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

(IX) INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE COMPANY

As of the end of the reporting period, 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 the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(X) DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, the Board of Supervisors and the Supervisors, Senior Management of the Company and Shareholders holding 5% or more shares during the reporting period.

(XI) 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 International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules.

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

(XII) PUBLISHING THE INTERIM REPORT

The English and Chinese versions of the interim report prepared by the Company in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules are 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 China Zheshang Bank Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 80 to 154, which comprises the condensed interim consolidated statement of financial position of China Zheshang Bank Co., Ltd. (the “Bank”) and its subsidiary (together, the “Group”) as at June 30, 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of 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 of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 9, 2019

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

		Unaudited For the six months ended June 30,	
	Note	2019	2018
Interest income	4	38,749,737	34,570,135
Interest expense	4	(22,799,210)	(22,935,970)
Net interest income		15,950,527	11,634,165
Fee and commission income	5	2,850,501	2,593,782
Fee and commission expense	5	(283,572)	(255,834)
Net fee and commission income		2,566,929	2,337,948
Net trading gains	6	3,085,923	3,759,330
Net gains on financial investments	7	760,364	575,164
Other operating income	8	209,892	289,453
Operating income		22,573,635	18,596,060
Operating expenses	9	(6,064,369)	(5,571,866)
Expected credit losses	10	(7,765,131)	(5,078,476)
Operating profit		8,744,135	7,945,718
Profit before income tax		8,744,135	7,945,718
Income tax expense	11	(1,120,109)	(1,436,654)
Net profit for the period		7,624,026	6,509,064
Net profit attributable to:			
Shareholders of the Bank		7,528,002	6,485,825
Non-controlling interests		96,024	23,239
		7,624,026	6,509,064
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	12	0.36	0.34

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(Continued)*

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

		Unaudited	
		For the six months ended	
		June 30,	
	<i>Note</i>	2019	2018
Net profit for the period		<u>7,624,026</u>	<u>6,509,064</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on financial assets at fair value through other comprehensive income	33	(122,321)	279,712
Expected credit losses of financial assets at fair value through other comprehensive income	33	(229,156)	(53,971)
Exchange difference on translation of foreign financial statements	33	158,316	278,375
Related income tax impact	33	<u>87,869</u>	<u>(56,435)</u>
Total other comprehensive income, net of tax		<u>(105,292)</u>	<u>447,681</u>
Total comprehensive income for the period		<u><u>7,518,734</u></u>	<u><u>6,956,745</u></u>
Total comprehensive income attributable to:			
Shareholders of the Bank		7,422,710	6,933,506
Non-controlling interests		<u>96,024</u>	<u>23,239</u>
		<u><u>7,518,734</u></u>	<u><u>6,956,745</u></u>

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		June 30, 2019	December 31, 2018
	Note	Unaudited	Audited
ASSETS			
Cash and balances with central bank	13	129,358,162	126,370,232
Precious metal		9,404,668	8,103,317
Due from banks and other financial institutions	14	74,180,682	55,383,174
Derivative financial assets	15	9,885,487	10,123,361
Loans and advances to customers	16	902,027,393	837,075,890
Financial investments			
– Financial assets at fair value through profit or loss	17	129,245,119	135,210,776
– Financial assets at fair value through other comprehensive income	18	89,384,935	91,885,792
– Financial assets measured at amortized cost	18	337,362,305	337,836,410
Property, plant and equipment	20	11,222,884	10,357,153
Right-of-use assets	21	3,543,076	N/A
Deferred income tax assets	22	9,922,203	8,319,665
Other assets	23	31,732,337	26,028,974
Total assets		1,737,269,251	1,646,694,744
LIABILITIES			
Due to banks and other financial institutions	24	282,504,329	279,999,081
Financial liabilities at fair value through profit or loss	25	10,564,941	12,483,213
Derivative financial liabilities	15	11,176,417	10,648,171
Customer deposits	26	1,049,944,951	974,770,403
Income tax payable		2,354,237	1,902,618
Provisions	27	3,297,966	3,118,177
Debt securities issued	28	247,978,177	245,996,763
Lease liabilities		3,410,674	N/A
Other liabilities	29	16,950,694	15,327,781
Total liabilities		1,628,182,386	1,544,246,207

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

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

		June 30, 2019	December 31, 2018
	<i>Note</i>	Unaudited	Audited
EQUITY			
Share capital	30	18,718,697	18,718,697
Other equity Instruments	31	14,957,664	14,957,664
Capital reserve	30	22,130,353	22,130,353
Surplus reserve	32	6,024,739	6,024,739
Statutory general reserve	32	19,454,244	18,461,991
Investment revaluation reserve	33	1,284,063	1,389,355
Retained earnings		24,858,042	19,202,699
Equity attributable to shareholders of the Bank		107,427,802	100,885,498
Non-controlling interests	35	1,659,063	1,563,039
Total equity		109,086,865	102,448,537
Total liabilities and equity		1,737,269,251	1,646,694,744

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

The condensed interim consolidated financial information were approved by the Board of Directors on August 9, 2019 and were signed on its behalf by:

Shen Renkang	Xu Renyan
_____ Legal Representative, Chairman of Board	_____ Executive Director, President

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to shareholders of the Bank							Non-Controlling interests (Note 35)	Total
	Share capital (Note 30)	Other equity instrument (Note 31)	Capital reserve (Note 30)	Surplus reserve (Note 32)	Statutory general reserve (Note 32)	Investment revaluation reserve (Note 33)	Retained earnings		
Balance at January 1, 2019	18,718,697	14,957,664	22,130,353	6,024,739	18,461,991	1,389,355	19,202,699	1,563,039	102,448,537
Net profit for the period	-	-	-	-	-	-	7,528,002	96,024	7,624,026
Other comprehensive income for the period	-	-	-	-	-	(105,292)	-	-	(105,292)
Total comprehensive income	-	-	-	-	-	(105,292)	7,528,002	96,024	7,518,734
Appropriation to statutory general reserve	-	-	-	-	992,253	-	(992,253)	-	-
Cash dividend	-	-	-	-	-	-	(880,406)	-	(880,406)
Balance at June 30, 2019	18,718,697	14,957,664	22,130,353	6,024,739	19,454,244	1,284,063	24,858,042	1,659,063	109,086,865
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,729,579	1,493,118	89,687,754
Impact on accounting policy changes	-	-	-	-	-	1,256,465	(1,475,093)	-	(218,628)
Balance at January 1, 2018	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(297,352)	13,254,486	1,493,118	89,469,126
Net profit for the period	-	-	-	-	-	-	6,485,825	23,239	6,509,064
Other comprehensive income for the period	-	-	-	-	-	447,681	-	-	447,681
Total comprehensive income	-	-	-	-	-	447,681	6,485,825	23,239	6,956,745
Contribution of shareholders	759,000	-	2,155,545	-	-	-	-	-	2,914,545
Appropriation to statutory general reserve	-	-	-	-	1,218,261	-	(1,218,261)	-	-
Cash dividends	-	-	-	-	-	-	(3,182,178)	-	(3,182,178)
Balance at June 30, 2018	18,718,697	14,957,664	22,130,353	4,882,975	18,461,991	150,329	15,339,872	1,516,357	96,158,238

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

		Unaudited For the six months ended June 30, 2019	2018
	<i>Note</i>		
Cash flows from operating activities:			
Profit before income tax		8,744,135	7,945,718
Adjustments:			
Depreciation and amortization	9	654,190	321,102
Expected credit losses	10	7,765,131	5,078,476
Net losses on disposal of fixed assets		122	—
Net gains on de-recognition of financial investments		(760,364)	(575,164)
Fair value changes in financial assets at fair value through profit or loss and derivatives		636,105	(1,183,377)
Interest income from financial investments		(10,516,003)	(12,265,483)
Interest expense from debt securities issued	4	4,497,402	4,700,175
Net change in operating assets and operating liabilities:			
Net decrease in restricted deposit balances with central bank		746,158	12,386,922
Net increase in due from banks and other financial institutions		(16,987,271)	(3,597,546)
Net decrease/(increase) in financial assets at fair value through profit or loss		5,695,515	(19,891,405)
Net increase in loans and advances to customers		(68,945,007)	(123,644,606)
Net increase in other operating assets		(6,921,970)	(21,058,454)
Net increase in due to banks and other financial institutions		2,023,233	3,765,927
Net increase in customer deposits		74,201,947	45,339,796
Net (decrease)/increase in other operating liabilities		(2,783,683)	15,234,127
Cash used in operating activities before tax		(1,950,360)	(87,443,792)
Income tax paid		(2,183,159)	(3,170,156)
Net cash used in operating activities		(4,133,519)	(90,613,948)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

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

		Unaudited	
		For the six months	
		ended June 30,	
	<i>Note</i>	2019	2018
Cash flows from investing activities:			
Dividends received		1,500	–
Cash generated from disposal of property and equipment, intangible assets and other long-term assets		1,400	–
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		(1,283,400)	(756,547)
Interest received from financial investments		15,066,848	14,321,068
Proceeds from disposal and redemption of financial investments		1,752,717,756	689,243,919
Purchase of financial investments		(1,753,069,507)	(644,737,931)
Net cash generated from investing activities		<u>13,434,597</u>	<u>58,070,509</u>
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		–	2,914,545
Proceeds from issuance of debt securities		150,610,279	157,754,578
Repayment of debt securities		(148,600,000)	(130,590,000)
Interest paid on debt securities issued		(4,526,267)	(4,700,175)
Dividends paid on ordinary shares		(880,406)	(846,089)
Net cash (used in)/generated from financing activities		<u>(3,396,394)</u>	<u>24,532,859</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(636)</u>	<u>200,170</u>
Net increase/(decrease) in cash and cash equivalents		<u>5,904,048</u>	<u>(7,810,410)</u>
Cash and cash equivalents at beginning of the period		<u>37,638,813</u>	<u>58,589,742</u>
Cash and cash equivalents at end of the period	<i>40</i>	<u><u>43,542,861</u></u>	<u><u>50,779,332</u></u>
Net cash flows from operating activities including:			
Interest received		<u>27,680,855</u>	<u>24,996,697</u>
Interest paid		<u>(16,769,873)</u>	<u>(18,167,195)</u>

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED June 30, 2019

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

1 GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank established on the basis of the original Zhejiang commercial bank with the approval from the China Banking Regulatory Commission (“CBRC” which was renamed to China Banking and Insurance Regulatory Commission in 2018, hereinafter “CBIRC”) (Yin Jian Fu [2004] No. 91 Document) and Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48 Document). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the CBRC. On July 26, 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License of Legal Entity (No. 330000000013295) in Zhejiang Province, the People’s Republic of China (the “PRC”). On November 7, 2016, the bank obtained the Uniform Social Credit Code (No. 91330000761336668H).

The Bank was listed on the Hong Kong Stock Exchange on March 30, 2016.

As at June 30, 2019, the registered capital of the Bank is Renminbi (“RMB”) 18,718,697 thousand and the total number of shares is 18,718,697 thousand (with a face value of RMB1 per share).

As at June 30, 2019, the Bank has established 250 branch outlets in 17 provinces (municipalities) and Hong Kong in China, including 59 branches (25 of them are tier-one branches), one branch-level specialized institution and 190 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 CBIRC.

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) was established on January 18, 2017 with a registered capital of RMB3,000,000 thousand. Since the Bank has control over Zheyin Financial Leasing, the Bank consolidates its financial statements into consolidated financial statements. The Bank and its subsidiary, Zheyin Financial Leasing (Note 3 ∙ 19), are collectively referred to as the “Group”.

The consolidated financial statements were approved by the Bank’s Board of Directors on August 9, 2019.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of presentation

The unaudited condensed interim consolidated financial information of the Group 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. The condensed consolidated interim financial information should be read in conjunction with the audited financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies

2.2.1 IFRS 9 Financial instruments

(1) Financial instruments

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss (“ECL”) allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider ECL but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired (“POCI”) financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate cash flow discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income and interest expenses

Interest income and interest expenses are calculated by applying the effective interest rate to the gross carrying amount of financial assets and financial liabilities, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- (b) Financial assets that are not “POCI” but have subsequently become credit-impaired (or “stage 3”), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL allowance).

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred profit or loss in day one is determined individually. It is either amortized over the life of the instrument, or deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

If the main contract of a combined contract applied to IFRS 9, the combined contract should be considered as a whole under classification of IFRS 9. The embedded derivatives should not be separated from the contract and accounted for as stand-alone derivatives.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.2 Principal accounting policies *(Continued)*

2.2.1 IFRS 9 Financial instruments *(Continued)*

(1) Financial instruments (Continued)

Financial assets

(i) Classification and subsequent measurement

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (a) The Group's business model for managing the asset; and
- (b) The cash flow characteristics of the asset.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented under “net trading gains” and “net gains or losses on financial investments” in the income statement.

Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in “net gains or losses on financial investments”. Interest income from these financial assets is included in “Interest income” using the effective interest rate method. The financial assets measured at FVOCI held by the Group mainly include investments measured at FVOCI and loans and advances to customers measured at FVOCI.

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and the interest income from these financial assets is included in “Interest income” using the effective interest rate method. Financial assets measured at amortized cost held by the Group mainly include deposits with central bank, due from banks and other financial institutions, loans and advances to customers measured at amortized cost and financial investments measured at amortized cost.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of “other” business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset’s performance is evaluated, how risks are assessed and managed and how managers are compensated.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

Solely Payments of Principal and Interest (the “SPPI test”): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments’ cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and do not occur during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group’s management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group’s policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, the gains and losses from the change in fair value are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECL (and reversal of ECL) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group’s right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the income statement.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.2 Principal accounting policies *(Continued)*

2.2.1 IFRS 9 Financial instruments *(Continued)*

(1) Financial instruments (Continued)

Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes an ECL allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modification of loans contract

The Group sometimes renegotiates or otherwise modifies the contraction of loans to customers resulting in the changes of cash flow. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- (i) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- (ii) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- (iii) Significant extension of the loan term when the borrower is not in financial difficulty;
- (iv) Significant change in the interest rate;
- (v) Change in the currency the loan is denominated in;
- (vi) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a “new” asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification of gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification of contract

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass through” transfers that result in derecognition if the Group:

- (a) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (b) Is prohibited from selling or pledging the assets; and
- (c) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognize the transferred asset to the extent of its continuing involvement and recognize the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortized cost; or (b) equal to the fair value of the rights and obligations retained by the Group, if the transferred asset is measured at fair value.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expense incurred on the financial liability; when continuing involvement approach applies and please refer to Note 2.2.1(1).
- Financial guarantee contracts and loan commitments, please refer to Note 2.2.1(2).

(ii) Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.1 IFRS 9 Financial instruments (Continued)

(1) Financial instruments (Continued)

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants for the borrower are also taken into consideration. If the exchange of contract or modification of terms is accounted for as an extinguishment and derecognition of relevant financial liability, relevant costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, relevant costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(2) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract. Such financial guarantees include the loans provided by banks, financial institutions, overdrafts and other banking facilities guarantee.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the ECL allowance (calculated as described in note 2.2.1(1)); and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance (calculated as described in note 2.2.1(1)). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the ECL allowance is recognized as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment is recognized together with the ECL allowance for the loan. Provided that the combined ECL exceeds the gross carrying amount of the loan, the ECL is recognized as provisions.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.2 Amendments to accounting policies and disclosures

New and revised IFRSs effective by January 1, 2019 applied by the Group

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual improvements 2015 – 2017 cycle
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement of Employee
Amendments to IAS 28	Long-term Interests in Associates and Joint ventures

The adoption of the revised International Financial Reporting Standards, with the exception of International Financial Report Standard 16 “Leases” (“IFRS 16”), have no significant impact on the Group in 2019.

IFRS 16 Leases

The International Accounting Standards Board (“IASB”) has issued IFRS 16 Leases in January 2016. The Group has used the above criteria to prepare the financial statements for the six-month period ended June 30, 2019. The impact on the Group’s financial statements is as follows:

Leases

The Group adopted the simple transition method allowed by the guidelines and applied the new leasing accounting policy only to contracts previously recognized as leases. The Group does not reassess whether it has a lease if it has not been confirmed as a lease before. Therefore, the lease definition of the new lease accounting policy applies only to contracts signed or changed on or after January 1, 2019.

The Group measures the lease liability for the remaining lease payments based on the present value of the leaser’s incremental borrowing rate on the first execution date, and adjusts the prepaid rent measurement right asset based on the amount equal to each lease liability.

Content and reasons for changes in accounting policies	Affected items	Affected amount January 1, 2019
For the operating lease contracts that existed prior to the first adoption of the new lease criteria, the Group differentiated the different lease methods according to the remaining lease terms.	Right-of-use assets	3,633,776
If the remaining lease term is longer than one year, the Group recognizes the lease liability and right-of-use assets based on the remaining lease payments and the incremental borrowing rate on January 1, 2019, and assumes that the new lease policy is adopted from the beginning of the lease period.	Lease liabilities	3,414,344
If the remaining lease term is shorter than one year, the Group adopts a simplified method and does not recognize the right-of-use assets and lease liabilities, and has no significant impact on the financial statements.	Other Asset	(219,432)
For leases that are low-value on the first execution date, the Group applies the exemption and does not recognize the right-of-use assets or lease liabilities and has no significant impact on the financial statements.		

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.2 Amendments to accounting policies and disclosures (Continued)

IFRS 16 Leases (Continued)

At the date of initial application, weighted average lessee's incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position was 4.80%.

On January 1, 2019, the leasing commitment for operating leases disclosed under original accounting policy and the lease liabilities recognized at the date of initial application are adjusted as follows:

	Affected amount
Operating lease commitments disclosed as at December 31, 2018	4,239,275
(Less): short-term leases recognized on a straight-line basis as expense	(307,148)
(Less): Others	(99,196)
Total contract amount of lease liabilities at the date of initial application	3,832,931
Present value discounted using the lessee's incremental borrowing rate of at January 1, 2019	3,414,344

For the six months ended June 30, 2019, the accounting policies applicable to the Group's leases are as follows:

Leases

Lease refers to a contract in which the lessor transfers the right to use the assets to the lessee for a certain period of time to obtain the consideration.

The Group as lessee

The Group recognises the right-of-use asset on the commencement date of the lease term and recognises the lease liability at the present value of the lease payments that have not been paid. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The variable rent determined based on a certain percentage of sales is not included in the lease payments and is recognized in profit or loss when incurred.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.2 Principal accounting policies *(Continued)*

2.2.2 Amendments to accounting policies and disclosures *(Continued)*

IFRS 16 Leases *(Continued)*

The Group as lessee (Continued)

The Group's right-to-use assets include leased houses and buildings, machinery and equipment, transportation vehicles, and computers and electronic equipment. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease beginning date, the initial direct costs, etc., and deducts the lease incentives received. If the Group can reasonably determine the ownership of the leased asset at the expiration of the lease term, it is depreciated over the remaining useful life of the leased asset; if it is not possible to reasonably determine whether the ownership of the leased asset can be obtained at the expiration of the lease term, the lease term and the remaining use of the leased asset, depreciation is made in the short period between the lease term and the remaining life of the lease asset. When the recoverable amount is lower than the carrying amount of the right-of-use asset, the Group reduces its carrying amount to the recoverable amount.

For short-term leases with a lease term of no more than 12 months and low-value asset leases with a lower value of individual assets, the Group chooses not to recognize the right-of-use assets and lease liabilities, and the relevant rental expenses are based on the straight-line method for each period of the lease term. It is included in the current profit and loss or related asset cost.

The Group as lessor

A lease that transfers substantially all of the risks and rewards associated with the ownership of the leased asset is a finance lease. Other leases are operating leases.

(1) Operating lease

When the Group operates its own buildings, machinery and equipment and transportation vehicles, the rental income from operating leases is recognized on the straight-line basis over the lease term. The Group's variable rent determined based on a certain percentage of sales is included in rental income when it actually occurs.

(2) Financial lease

On the commencement date of the lease term, the Group recognizes the finance lease receivable from the finance lease and derecognises the relevant assets. The Group presents the finance lease receivables as long-term receivables, and the finance lease receivables received within one year (including one year) from the balance sheet date are listed as non-current assets due within one year.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.2 Principal accounting policies (Continued)

2.2.2 Amendments to accounting policies and disclosures (Continued)

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group:

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred/ removed.
IFRS 17	Insurance Contracts	January 1, 2022

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the amendments will not have a significant impact on the Group's consolidated statement of financial position.

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group anticipates that there will be no significant impact on the Group's consolidated statement of financial position of adopting IFRS 17.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.3 Consolidated Financial Statement

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

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity, net profits and total comprehensive income for the period not attributable to the Bank are recognized as non-controlling interests, net profit attributable to non-controlling interests and total comprehensive income attributed to non-controlling interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively.

Unrealized profits or losses resulting from the Bank selling assets to its subsidiaries are offset against the parent company's net profits. Unrealized profits or losses resulting from the subsidiaries selling assets to the Bank are offset against net profits attributable to shareholders of the parent company and non-controlling interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and non-controlling interests based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Bank or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective. The loss distributed to non-controlling shareholders of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the non-controlling shareholders' equity.

2.4 Critical accounting estimates and judgments in applying accounting policies

The preparation of unaudited condensed consolidated interim financial information requires the management to make judgments, estimates and assumptions that affect the application of accounting policies.

In preparing this condensed consolidated interim financial information, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended December 31, 2018 except the measurement of ECL.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.4 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

The measurement of ECL

For loans and advances to customers, financial assets measured at amortized cost, loan commitments and financial guarantees, a complex model and a large number of assumptions are used in the measurement of ECL. These models and assumptions relate to future macroeconomic conditions and the borrower's credit behaviour (e.g. the likelihood of customer default and corresponding losses).

The Group's measurement of ECL involves many significant judgments, such as:

- Selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models.
- The estimated future cash flows for corporate loans and advances, financial assets measured at amortized cost and loan commitments and financial guarantees in stage 3.

Control over structured entity

Where the Group acts as an asset manager or investor of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (e.g. direct investment) that it holds in the structured entities. The Group performs reassessment periodically.

2 BASIS OF PRESENTATION, PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

2.4 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

Fair value measurement of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair value measurement of financial instruments.

3 SUBSIDIARY

Name of entity	Date of incorporation	Place of incorporation	Principal activities	Registered capital	Proportion of equity
Zhejiang Zheyin Financial Leasing Co., LTD.	January 18, 2017	Zhejiang, PRC	Finance industry	3,000,000	51%

4 NET INTEREST INCOME

	For the six months ended June 30,	
	2019	2018
Interest income		
Balances with central bank	841,751	875,558
Due from banks and other financial institutions	1,140,887	1,381,323
Loans and advances to customers	26,251,096	20,047,771
Investments	10,516,003	12,265,483
Subtotal	38,749,737	34,570,135
Including: Interest income from impaired financial assets	65,749	43,718
Interest expense		
Due to banks and other financial institutions	(5,854,311)	(9,383,275)
Customer deposits	(12,372,373)	(8,852,520)
Lease liabilities	(75,124)	N/A
Debt securities issued	(4,497,402)	(4,700,175)
Subtotal	(22,799,210)	(22,935,970)
Net interest income	15,950,527	11,634,165

5 NET FEE AND COMMISSION INCOME

	For the six months ended June 30,	
	2019	2018
Fee and commission income		
Settlement business	755,630	407,016
Underwriting service	617,828	392,647
Asset management business	489,861	862,239
Credit commitment	313,795	247,040
Custodian and other fiduciary service	280,296	285,522
Agency service	129,750	207,239
Others	263,341	192,079
Total	2,850,501	2,593,782
Fee and commission expense	(283,572)	(255,834)
Net fee and commission income	2,566,929	2,337,948

6 NET TRADING GAINS

	For the six months ended June 30,	
	2019	2018
Financial instruments at fair value through profit or loss	1,663,958	1,746,848
Funds investment	1,574,945	1,757,709
Derivative financial instruments	(184,075)	151,462
Exchange differences	25,587	103,311
Other investment gains	5,508	—
Total	3,085,923	3,759,330

7 NET GAINS ON FINANCIAL INVESTMENTS

	For the six months ended June 30,	
	2019	2018
Net gains arising from financial assets – fair value through other comprehensive income	279,011	77,944
Net gains arising from financial assets measured at amortized cost	202,804	179,747
Other investment gains	278,549	317,473
Total	760,364	575,164

8 OTHER OPERATING INCOME

	For the six months ended June 30,	
	2019	2018
Government grants	45,171	86,649
Dividend income	1,500	—
(Losses)/gains on disposal of fixed assets, intangible assets and other long-term assets	(122)	146
Operating lease income	64,070	20,829
Other miscellaneous income	99,273	181,829
Total	209,892	289,453

9 OPERATING EXPENSES

	For the six months ended June 30,	
	2019	2018
Staff costs (i)	4,177,181	3,472,983
General and administrative expenses	907,408	1,191,498
Depreciation expenses	542,255	237,913
Tax and surcharges	240,781	222,358
Amortization of long-term prepaid expenses	82,568	55,314
Rental expenses	60,462	343,370
Amortization of intangible assets (Note 23(i))	21,232	19,740
Amortization of land use rights (Note 23(i))	8,135	8,135
Donations	5,330	2,598
Auditors' remuneration	2,000	—
Others	17,017	17,957
Total	6,064,369	5,571,866

9 OPERATING EXPENSES (Continued)

(i) Staff costs

	For the six months ended June 30,	
	2019	2018
Salaries and bonuses	3,348,567	2,722,605
Pension costs – Defined contribution plans	401,146	370,165
Housing funds	136,833	126,185
Labor union fee and staff education expenses	71,716	57,610
Other social security and benefit costs	218,919	196,418
	<u>4,177,181</u>	<u>3,472,983</u>
Total	<u>4,177,181</u>	<u>3,472,983</u>

10 EXPECTED CREDIT LOSSES

	For the six months ended June 30,	
	2019	2018
Due from banks and other financial institutions	376,692	(741)
Loans and advances to customers	3,861,212	4,955,337
Financial assets at fair value through other comprehensive income	(229,156)	(51,816)
Financial assets measured at amortized cost	3,366,109	(66,809)
Loan commitments and financial guarantee contracts	179,951	56,925
Finance lease receivables	210,883	175,266
Others	(560)	10,314
	<u>7,765,131</u>	<u>5,078,476</u>
Total	<u>7,765,131</u>	<u>5,078,476</u>

11 INCOME TAX EXPENSE

	For the six months ended June 30,	
	2019	2018
Current income tax	2,634,778	1,801,807
Deferred income tax (Note 22)	(1,514,669)	(365,153)
	<u>1,120,109</u>	<u>1,436,654</u>
Total	<u>1,120,109</u>	<u>1,436,654</u>

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

11 INCOME TAX EXPENSE (Continued)

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:

	For the six months ended June 30,	
	2019	2018
Profit before income tax	<u>8,744,135</u>	<u>7,945,718</u>
Tax calculated at a tax rate of 25%	2,186,034	1,986,430
Tax effect arising from income not subject to tax (i)	(1,077,761)	(500,766)
Tax effect of expenses that are not deductible for tax purposes (ii)	<u>11,836</u>	<u>(49,010)</u>
Income tax expense	<u>1,120,109</u>	<u>1,436,654</u>

(i) The income not subject to tax mainly represents interest income arising from treasury bonds and dividend income arising from fund investments, 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 are not deductible for tax purposes according to PRC tax regulations.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the period.

	For the six months ended June 30,	
	2019	2018
Net profit attributable to ordinary shareholders of the Bank (in RMB thousands)	<u>6,647,596</u>	<u>6,269,211</u>
Weighted average number of ordinary shares in issue (in thousands)	<u>18,718,697</u>	<u>18,339,197</u>
Basic earnings per share (in RMB yuan)	<u>0.36</u>	<u>0.34</u>

For the six months ended June 30, 2019, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on March 29, 2017 and the terms and conditions are as detailed in Note 31. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the period ended June 30, 2019, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

13 CASH AND BALANCES WITH CENTRAL BANK

	June 30, 2019	December 31, 2018
Cash	474,878	519,035
Mandatory reserve deposits with central bank (a)	104,551,726	104,802,428
Surplus reserve deposits with central bank (b)	24,263,367	20,479,963
Fiscal deposits	18,031	513,487
Accrued interest	50,160	55,319
Total	129,358,162	126,370,232

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

The mandatory reserve deposit rates of the Bank were as follows:

	June 30, 2019	December 31, 2018
Mandatory reserve rate for deposits denominated in RMB	10%	11%
Mandatory reserve rate for deposits denominated in foreign currencies	5%	5%
Mandatory reserve rate for foreign forward exchange	20%	20%

- (b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

14 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	June 30, 2019	December 31, 2018
Deposits with banks and other financial institutions	25,698,911	20,056,535
Notes purchased under resale agreements	2,959,033	10,761,162
Securities purchased under resale agreements	40,381,054	7,657,495
Placements with banks and other financial institutions	5,384,646	16,796,380
Accrued interest	139,403	117,297
ECL allowance	(382,365)	(5,695)
Total	74,180,682	55,383,174

15 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Nominal value	Fair value Asset	Liability
June 30, 2019			
Swap contracts	2,032,372,008	6,705,253	(7,812,895)
Option contracts	106,414,565	3,020,508	(3,049,875)
Forward contracts	6,764,452	159,726	(313,647)
Total	2,145,551,025	9,885,487	(11,176,417)
December 31, 2018			
Swap contracts	1,785,860,447	9,235,537	(10,095,239)
Option contracts	57,220,209	809,859	(425,225)
Forward contracts	6,216,931	77,965	(127,707)
Total	1,849,297,587	10,123,361	(10,648,171)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	June 30, 2019	December 31, 2018
Loans and advances at amortized cost		
Corporate loans and advances		
– Corporate loans	583,153,243	575,687,278
– Trade finance	19,475,168	22,066,506
Subtotal	602,628,411	597,753,784
Personal loans and advances		
– Personal business	119,398,683	106,843,459
– Residential mortgage loans	43,923,310	44,449,992
– Consumer loans	73,709,266	50,114,178
Subtotal	237,031,259	201,407,629
Gross amount of loans and advances at amortized cost	839,659,670	799,161,413
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
– Trade finance	9,833,586	5,504,677
Discounted bills	80,612,050	57,707,010
Subtotal of loans and advances at fair value through other comprehensive income	90,445,636	63,211,687
Subtotal of loans and advances	930,105,306	862,373,100
Fair value changes through other comprehensive income	109,077	146,906
Accrued interest	2,488,044	2,712,663
Gross amount of loans and advances	932,702,427	865,232,669
Less: ECL allowance of Loans and advances at amortized cost	(30,602,999)	(28,029,034)
Including : Stage 1	(16,702,057)	(17,149,126)
Stage 2	(5,291,295)	(3,381,859)
Stage 3	(8,609,647)	(7,498,049)
Less: ECL allowance of Loans and advances at fair value through other comprehensive income	(72,035)	(127,745)
Gross amount of ECL	(30,675,034)	(28,156,779)
Net amount of loans and advances	902,027,393	837,075,890

16 LOANS AND ADVANCES TO CUSTOMERS (Continued)
(b) Loans and advances to customers listed by the stages:

June 30, 2019	ECL allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers	898,280,772	18,636,077	13,188,457	930,105,306
– Corporate loans and advances	664,809,066	17,347,797	10,917,184	693,074,047
– Personal loans and advances	233,471,706	1,288,280	2,271,273	237,031,259
ECL allowance	(16,724,965)	(5,291,304)	(8,658,765)	(30,675,034)
Fair value changes through other comprehensive income	108,836	161	80	109,077
Accrued interest	2,437,396	50,648	–	2,488,044
Loans and advances to customers	884,102,039	13,395,582	4,529,772	902,027,393
December 31, 2018	ECL allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers	837,722,068	13,959,589	10,691,443	862,373,100
– Corporate loans and advances	638,666,596	12,936,807	9,362,068	660,965,471
– Personal loans and advances	199,055,472	1,022,782	1,329,375	201,407,629
ECL allowance	(17,240,873)	(3,381,859)	(7,534,047)	(28,156,779)
Fair value changes through other comprehensive income	146,823	–	83	146,906
Accrued interest	2,668,146	44,517	–	2,712,663
Loans and advances to customers	823,296,164	10,622,247	3,157,479	837,075,890

17 FINANCIAL INVESTMENTS: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018
Government bonds		
– Listed outside Hong Kong	7,470,168	6,762,199
Other debt securities		
– Listed in Hong Kong	405,431	–
– Listed outside Hong Kong	33,614,332	41,152,944
Fund investments	84,360,735	82,342,692
Trust plans and asset management plans issued by financial institution other than bank	2,449,377	2,078,695
Wealth management products issued by other banks	–	2,010,739
Other investment on stocks	436,103	261,994
Others	508,973	601,513
Total	129,245,119	135,210,776

As at June 30, 2019 and December 31, 2018, all financial assets at fair value through profit or loss of the Group were held for trading.

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

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

	June 30, 2019	December 31, 2018
Issuers in the PRC		
– Government	7,470,168	6,762,199
– Banks and other financial institutions	102,664,540	107,108,985
– Corporates	18,601,438	20,738,079
Others	508,973	601,513
Total	129,245,119	135,210,776

18 FINANCIAL INVESTMENTS

(a) Financial assets at fair value through other comprehensive income

	June 30, 2019	December 31, 2018
Financial assets at fair value through other comprehensive income		
Listed outside Hong Kong		
– Debt securities	45,123,340	40,301,644
– Interbank certificates of deposit	69,590	6,463,327
– Other debt instrument	36,299,409	44,207,936
Listed in Hong Kong		
– Debt securities	5,611,916	–
– Interbank certificates of deposit	1,030,861	–
Unlisted		
– Equity securities	622,700	275,000
Accrued interest	627,119	637,885
Total	89,384,935	91,885,792

Financial assets at fair value through other comprehensive income analyzed by issuer are as follows:

	June 30, 2019	December 31, 2018
Financial assets at fair value through other comprehensive income		
By issuer:		
– Government	29,677,336	18,468,635
– Banks and other financial institutions	17,615,707	23,079,325
– Corporates	40,842,073	49,424,947
Subtotal	88,135,116	90,972,907
Equity securities	622,700	275,000
Accrued interest	627,119	637,885
Total	89,384,935	91,885,792

18 FINANCIAL INVESTMENTS (Continued)

(b) Financial assets measured at amortized cost

	June 30, 2019	December 31, 2018
Financial assets measured at amortized cost		
Listed outside Hong Kong		
– Debt securities	156,289,309	134,131,745
Unlisted		
– Trust plans and asset management plans (i)	186,143,321	206,198,925
– Wealth management products	–	1,041,819
Accrued interest	4,473,700	3,955,239
Total	346,906,330	345,327,728
Less : ECL allowance	(9,544,025)	(7,491,318)
Financial assets measured at amortized cost – Net	337,362,305	337,836,410

Financial assets measured at amortized cost analyzed by issuer are as follows:

	June 30, 2019	December 31, 2018
Financial assets measured at amortized cost		
By issuer:		
– Government	102,677,080	94,674,004
– Banks and other financial institutions	40,798,583	35,275,604
– Trust plans and asset management plans issued by financial institution other than bank (i)	186,143,321	206,198,925
– Wealth management products issued by other banks	–	1,041,819
– Others	12,813,646	4,182,137
Accrued interest	4,473,700	3,955,239
Total	346,906,330	345,327,728
Less : ECL allowance	(9,544,025)	(7,491,318)
Financial assets measured at amortized cost – Net	337,362,305	337,836,410

18 FINANCIAL INVESTMENTS (Continued)

(b) Financial assets measured at amortized cost (Continued)

(i) Trust plans and asset management plans can be analyzed by secured and unsecured as follows :

	June 30, 2019	December 31, 2018
Secured:		
Guaranteed by third-party companies	15,412,238	16,412,385
Pledged by certificates of deposit	2,464,370	2,818,743
Collateralized by properties	13,497,224	18,701,957
Subtotal	31,373,832	37,933,085
Unsecured :		
Financial institutions	47,245,795	40,834,106
Corporates	107,523,694	127,431,734
Subtotal	154,769,489	168,265,840
Total	186,143,321	206,198,925

19 INVESTMENT IN SUBSIDIARIES

The Bank invested RMB1.53 billion in cash to establish Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) with an entity interest of 51% in 2017. Zheyin Financial Leasing was co-funded by the Bank, Zhejiang Provincial Financial Holdings and Zhoushan Marine Comprehensive Development And Investment Co., Ltd. with a registered capital of RMB 3 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank included it in the scope of consolidated financial statements. The detailed information of Zheyin Financial Leasing is as follows :

	Place of incorporation	Registered address	Principal activities	Registered capital (thousand)	Proportion of equity interest(direct)
Zhejiang Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Finance industry	3,000,000	51%

20 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Leased fixed assets in the operating leases	Construction in progress	Total
Cost						
At January 1, 2019	6,831,366	1,580,999	166,015	606,535	2,634,664	11,819,579
Additions	417,727	68,872	2,675	–	701,402	1,190,676
Transfer from Construction in progress	15,968	–	–	–	–	15,968
Transfer to Property, plant and equipment	–	–	–	–	(15,968)	(15,968)
Transfer to long-term prepaid expenses	–	–	–	–	(25,203)	(25,203)
Disposals	–	(15,831)	(6,461)	–	–	(22,292)
At June 30, 2019	<u>7,265,061</u>	<u>1,634,040</u>	<u>162,229</u>	<u>606,535</u>	<u>3,294,895</u>	<u>12,962,760</u>
Accumulated depreciation						
At January 1, 2019	(651,258)	(689,169)	(100,347)	(21,652)	–	(1,462,426)
Charge for the period	(137,312)	(131,687)	(9,918)	(19,303)	–	(298,220)
Disposals	–	14,807	5,963	–	–	20,770
At June 30, 2019	<u>(788,570)</u>	<u>(806,049)</u>	<u>(104,302)</u>	<u>(40,955)</u>	<u>–</u>	<u>(1,739,876)</u>
Net book value						
At June 30, 2019	<u><u>6,476,491</u></u>	<u><u>827,991</u></u>	<u><u>57,927</u></u>	<u><u>565,580</u></u>	<u><u>3,294,895</u></u>	<u><u>11,222,884</u></u>
Cost						
At January 1, 2018	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Additions	1,372,244	518,700	12,725	259,415	2,355,930	4,519,014
Transfer from Construction in progress	1,360,968	–	–	–	–	1,360,968
Transfer to Property, plant and equipment	–	–	–	–	(1,360,968)	(1,360,968)
Transfer to long-term prepaid expenses	–	–	–	–	(216,031)	(216,031)
Disposals	(47,632)	(43,867)	(21,682)	–	–	(113,181)
At December 31, 2018	<u>6,831,366</u>	<u>1,580,999</u>	<u>166,015</u>	<u>606,535</u>	<u>2,634,664</u>	<u>11,819,579</u>
Accumulated depreciation						
At January 1, 2018	(480,636)	(441,573)	(99,625)	(5,240)	–	(1,027,074)
Charge for the year	(175,796)	(267,938)	(20,597)	(16,412)	–	(480,743)
Disposals	5,174	20,342	19,875	–	–	45,391
At December 31, 2018	<u>(651,258)</u>	<u>(689,169)</u>	<u>(100,347)</u>	<u>(21,652)</u>	<u>–</u>	<u>(1,462,426)</u>
Net book value						
At December 31, 2018	<u><u>6,180,108</u></u>	<u><u>891,830</u></u>	<u><u>65,668</u></u>	<u><u>584,883</u></u>	<u><u>2,634,664</u></u>	<u><u>10,357,153</u></u>

21 RIGHT-OF-USE ASSETS

	Buildings	Others	Total
Cost			
At January 1, 2019	3,616,569	17,207	3,633,776
Additions	<u>185,935</u>	<u>449</u>	<u>186,384</u>
At June 30, 2019	<u>3,802,504</u>	<u>17,656</u>	<u>3,820,160</u>
Accumulated depreciation			
At January 1, 2019	—	—	—
Additions	<u>(275,972)</u>	<u>(1,112)</u>	<u>(277,084)</u>
At June 30, 2019	<u>(275,972)</u>	<u>(1,112)</u>	<u>(277,084)</u>
Net book value			
At June 30, 2019	<u>3,526,532</u>	<u>16,544</u>	<u>3,543,076</u>
At January 1, 2019	<u>3,616,569</u>	<u>17,207</u>	<u>3,633,776</u>

For short-term leases and low-value asset leases, the Group chooses not to recognize the right-of-use assets and lease liabilities. During the six months ended June 30, 2019, the Group recognized short-term lease expenses and low-value asset lease expenses of RMB60,462 thousand.

22 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 are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities are recognized as follows:

	June 30, 2019		December 31, 2018	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
ECL allowance and provisions	9,341,708	37,366,829	7,913,615	31,654,460
Staff salary and welfare payable	825,702	3,302,804	820,399	3,281,595
Unrealized losses of derivative instruments	158,857	635,429	59,876	239,505
Others	93,711	374,844	98,121	392,482
Subtotal	<u>10,419,978</u>	<u>41,679,906</u>	<u>8,892,011</u>	<u>35,568,042</u>
Deferred income tax liabilities:				
Depreciation of fixed assets	(73,343)	(293,371)	–	–
Unrealized gains of financial instruments at fair value through profit or loss	(344,523)	(1,378,094)	(404,568)	(1,618,275)
Unrealized gains of financial assets at fair value through other comprehensive income	(79,909)	(319,631)	(167,778)	(671,109)
Subtotal	<u>(497,775)</u>	<u>(1,991,096)</u>	<u>(572,346)</u>	<u>(2,289,384)</u>
Net deferred income tax	<u><u>9,922,203</u></u>	<u><u>39,688,810</u></u>	<u><u>8,319,665</u></u>	<u><u>33,278,658</u></u>

The movements for deferred tax assets and liabilities recognized are as follows:

	June 30, 2019	December 31, 2018
Balance at the end of the last period/year	8,319,665	7,366,808
Impact on accounting policy changes	–	72,876
Balance at beginning of the period/year	8,319,665	7,439,684
Charged to profit or loss (<i>Note 11</i>)	1,514,669	1,146,876
Charged to other comprehensive income		
– Fair value changes of financial assets at fair value through other comprehensive income (<i>Note 33</i>)	<u>87,869</u>	<u>(266,895)</u>
At end of the period/year	<u><u>9,922,203</u></u>	<u><u>8,319,665</u></u>

23 OTHER ASSETS

	June 30, 2019	December 31, 2018
Finance lease receivables	23,360,483	16,209,801
Prepayment of land, building and deposit	1,909,482	1,903,780
Other receivables	1,623,931	3,459,190
Guaranteed deposits	831,257	787,066
Intangible assets (i)	754,751	756,527
Prepayment of improvements and equipment	739,907	728,185
Long-term prepaid expenses	653,907	870,749
Funds to be settled	530,390	589,643
Interest receivable	346,840	225,481
Others	981,389	498,552
Total	31,732,337	26,028,974

(i) Intangible assets

	Land use rights	Computer software	Total
Cost			
At January 1, 2019	633,294	433,019	1,066,313
Additions	—	27,591	27,591
At June 30, 2019	633,294	460,610	1,093,904
Accumulated amortization			
At January 1, 2019	(99,102)	(210,684)	(309,786)
Amortization for the period	(8,135)	(21,232)	(29,367)
At June 30, 2019	(107,237)	(231,916)	(339,153)
Net book value			
At June 30, 2019	526,057	228,694	754,751

23 OTHER ASSETS (Continued)

(i) Intangible assets (Continued)

	Land use rights	Computer software	Total
Cost			
At January 1, 2018	633,294	372,857	1,006,151
Additions	–	60,376	60,376
Reduction	–	(214)	(214)
	<u>633,294</u>	<u>433,019</u>	<u>1,066,313</u>
Accumulated amortization			
At January 1, 2018	(82,833)	(169,757)	(252,590)
Amortization for the year	(16,269)	(40,987)	(57,256)
Reduction	–	60	60
	<u>(99,102)</u>	<u>(210,684)</u>	<u>(309,786)</u>
Net book value			
At December 31, 2018	<u>534,192</u>	<u>222,335</u>	<u>756,527</u>

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

	June 30, 2019	December 31, 2018
Held outside Hong Kong		
– on medium-term lease (10-50 years)	<u>526,057</u>	<u>534,192</u>

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	June 30, 2019	December 31, 2018
Deposits from banks and other financial institutions	145,484,265	169,314,859
Securities sold under repurchase agreements	83,913,305	62,178,272
Placements from banks and other financial institutions	38,656,467	37,932,384
Notes sold under repurchase agreements	11,397,679	8,258,605
Accrued interest	3,052,613	2,314,961
Total	<u>282,504,329</u>	<u>279,999,081</u>

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018
Financial liabilities related to precious metal contracts	10,096,864	9,906,816
Short sell of borrowed securities	412,562	2,522,202
Accrued interest	55,515	54,195
Total	<u>10,564,941</u>	<u>12,483,213</u>

26 CUSTOMER DEPOSITS

	June 30, 2019	December 31, 2018
Corporate demand deposits	305,867,730	308,220,456
Corporate time deposits	606,452,802	555,965,785
Individual demand deposits	41,126,992	40,502,374
Individual time deposits	82,227,109	57,161,099
Other deposits	2,954,844	2,577,816
Accrued interest	11,315,474	10,342,873
Total	1,049,944,951	974,770,403
Including: Pledged deposits held as collateral	124,828,921	135,020,123

27 PROVISIONS

	January 1, 2019	Provision for this period	Others	June 30, 2019
ECL of credit commitments and financial guarantee	3,118,177	179,951	(162)	3,297,966

On June 30, 2019, credit commitments and financial guarantees of the Group are mainly in stage 1.

28 DEBT SECURITIES ISSUED

	June 30, 2019	December 31, 2018
Fixed rate financial bonds – 2019 (i)	–	4,500,000
Fixed rate financial bonds – 2020 (ii)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (iii)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2026 (iv)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2028 (v)	15,000,000	15,000,000
Fixed rate financial bonds – 2021 (vi)	20,000,000	20,000,000
Interbank certificates of deposit	186,778,856	180,268,577
Accrued interest	1,199,321	1,228,186
Total	247,978,177	245,996,763

- (i) Fixed-rate financial bond of RMB4.5 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.
- (ii) Fixed-rate financial bond of RMB5 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.
- (iii) Fixed-rate financial bond of RMB10 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.
- (iv) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued on September 14, 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2021.
- (v) Fixed-rate offering-tier 2 capital bond of RMB15 billion was issued on June 13, 2018, with a maturity of 10 years and a fixed coupon rate of 4.80% per annum payable annually. The Bank has an option to redeem all the debts at book value at the year end of 2023.
- (vi) Fixed-rate financial bond of RMB20 billion was issued on August 27, 2018, with a maturity of 3 years and a fixed coupon rate of 4.39% per annum payable annually. The Bank has no option to redeem the bond before maturity.

As at June 30, 2019, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or interbank certificates of deposit for the Group.

29 OTHER LIABILITIES

	June 30, 2019	December 31, 2018
Settlement fund	9,115,254	5,468,191
Salary and welfare payable (i)	3,743,455	4,005,720
Tax payable (ii)	872,701	710,366
Notes payable	270,257	1,210,427
Promissory notes and certified cheques issued	211,932	100,147
Deferred income	25,817	34,200
Dividends payable	10,000	10,000
Others	2,701,278	3,788,730
Total	16,950,694	15,327,781

(i) Salary and welfare payable

	June 30, 2019	December 31, 2018
Salary, bonus, allowance and subsidies	3,676,830	3,933,705
Labor union fee and staff education expenses	66,625	72,015
Total	3,743,455	4,005,720

(ii) Tax payable

	June 30, 2019	December 31, 2018
Value-added tax payable	679,856	577,182
Others	192,845	133,184
Total	872,701	710,366

30 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	June 30, 2019	December 31, 2018
Number of shares authorized, issued and fully paid at par value (in thousands)	<u>18,718,697</u>	<u>18,718,697</u>

As at June 30, 2019, the Group's capital reserve is shown as follows:

	June 30, 2019	December 31, 2018
Share premium (i)	<u>22,130,353</u>	<u>22,130,353</u>

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

31 OTHER EQUITY INSTRUMENTS

(a) List of preference shares issued

Equity instruments in issue	Issue date	Dividend rate	Original issuance price per share (USD)	Number	Total (USD in thousands)	Total (RMB in thousands)	Maturity date	Conversion condition
Offshore preference shares	March 29, 2017	The initial annual dividend rate is 5.45% and is subsequently subject to reset per agreement	20	108,750,000	2,175,000	14,989,013	No maturity date	No conversion during the period
					Minus : Issuance fee	<u>(31,349)</u>		
					Book value	<u>14,957,664</u>		

31 OTHER EQUITY INSTRUMENTS *(Continued)*

(b) Movement of preference shares issued

	December 31, 2018	Addition	Reduction	June 30, 2019
Number (share)	108,750,000	–	–	108,750,000
Total (USD in thousands)	2,175,000	–	–	2,175,000
Total (RMB in thousands)	14,957,664	–	–	14,957,664

(c) Main terms of preference shares

(i) Dividend

The offshore preference shares dividend will be calculated on following dividend yields:

- 1) from and including the issue date to but excluding the first reset date, at the rate of 5.45% per annum; and
- 2) thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate.

The dividend for offshore preference shares is non-cumulative.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and making statutory general provisions, and the Bank's capital adequacy ratio meets regulatory requirements.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due.

Under the circumstances where the Bank cancels a dividend in whole or in part, in accordance with such shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

(iii) Conversion

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- 1) cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- 2) irrevocably and compulsorily convert with effect from the conversion date all or some of the offshore preference shares into such number of H shares as is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD\$1.00 to HK\$7.7544) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares, and any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The “trigger event” refers to an additional tier one capital instrument trigger event or a non-viability trigger event, as the case may be. The “additional tier one capital instrument trigger event” refers to the occasion where the Bank’s core tier one capital adequacy ratio of the Bank has fallen to 5.125% or below. The “non-viability trigger event” is defined as the earlier of: the CBIRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

(iv) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (a) junior to holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (b) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (c) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be *pari passu* with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

(v) Redemption

The Bank may, subject to obtaining the CBIRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

31 OTHER EQUITY INSTRUMENTS *(Continued)*

(d) Information related to the holders of the equity instrument

	June 30, 2019	December 31, 2018
Attributable to shareholders of the Bank	107,427,802	100,885,498
Equity attribute to ordinary shareholders of the Bank	92,470,138	85,927,834
Equity attribute to other equity holders of the Bank	14,957,664	14,957,664
Attributable to non-controlling interests	1,659,063	1,563,039

32 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2019	6,024,739	18,461,991
Appropriation to the statutory surplus reserve	—	—
Appropriation to the statutory general reserve	—	992,253
Balance at June 30, 2019	6,024,739	19,454,244
Balance at January 1, 2018	4,882,975	17,243,730
Appropriation to the statutory surplus reserve	1,141,764	—
Appropriation to the statutory general reserve	—	1,218,261
Balance at December 31, 2018	6,024,739	18,461,991

(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 general reserve is treated as profit distribution and is an integral part of shareholders' equity, which should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

33 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2019	1,557,133	(167,778)	1,389,355
Fair value changes in financial assets at fair value through other comprehensive income (<i>Note 22</i>)	435,239	(108,810)	326,429
Amounts previously recognized in other comprehensive income reclassified to profit or loss (<i>Note 22</i>)	(557,560)	139,390	(418,170)
ECL of financial assets at fair value through other comprehensive income (<i>Note 22</i>)	(229,156)	57,289	(171,867)
Exchange difference on translation of foreign financial statements	158,316	–	158,316
Balance at June 30, 2019	1,363,972	(79,909)	1,284,063
	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2018	(396,469)	99,117	(297,352)
Fair value changes in financial assets at fair value through other comprehensive income (<i>Note 22</i>)	776,381	(194,095)	582,286
Amounts previously recognized in other comprehensive income reclassified to profit or loss (<i>Note 22</i>)	(229,989)	57,498	(172,491)
ECL of financial assets at fair value through other comprehensive income (<i>Note 22</i>)	521,187	(130,298)	390,889
Exchange difference on translation of foreign financial statements	886,023	–	886,023
Balance at December 31, 2018	1,557,133	(167,778)	1,389,355

34 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.

34 DIVIDENDS (Continued)

- (b) As approved by shareholders in the Annual General Meeting on May 27, 2019, the Bank did not distribute common stock dividends for year ended December 31, 2018.

As approved by shareholders in the Annual General Meeting on June 27, 2018, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,182,178 thousand.

- (c) On March 18, 2019, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends paid was USD132 million (including tax), and the dividend was paid on March 29, 2019.

On December 20, 2017, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends paid was USD132 million (including tax), and the dividend was paid on March 29, 2018.

35 NON-CONTROLLING INTEREST

The Group's non-controlling interest is listed as follows :

	June 30, 2019	December 31, 2018
Zheyin Financial Leasing	<u>1,659,063</u>	<u>1,563,039</u>

As at June 30, 2019, the non-controlling interest of the Group is not material.

Unconsolidated structured entities

(a) *Unconsolidated structured entities managed by the Group*

The unconsolidated structure entities issued and managed by the Group are wealth management products issued and managed by the Group as an agent. Based on the analysis and research of the potential target customers, the Group 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 Group receives commission income as the manager of these wealth management products.

The wealth management products sponsored and managed by the Group were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Group set admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc.

As of June 30, 2019, the balance of unconsolidated wealth management products sponsored and managed by the Group is RMB342,097 million (December 31, 2018: RMB340,317 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which is insignificant. As of June 30, 2019 the Group's intermediate business income from providing management services for the non-principal guaranteed wealth management products was RMB490 million (June 30, 2018: RMB862 million).

During the six months ended June 30, 2019 and the year ended December 31, 2018, the Group did not provide financial or other support to these structured entities. The Group did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entity in obtaining financial support.

Unconsolidated structured entities (Continued)

(b) Unconsolidated structured entities invested by the Group

As at June 30, 2019 and December 31, 2018, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

During the six months ended June 30, 2019 and year ended December 31, 2018, the Group did not provide financial or other support to these structured entities.

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

	Carrying value	Maximum exposure to loss
At June 30, 2019		
Financial assets at fair value through profit or loss		
– Fund investments	84,360,735	84,360,735
– Asset backed securitization	869,177	869,177
– Trust plans and asset management plans	2,449,377	2,449,377
	<u>85,679,289</u>	<u>85,679,289</u>
Financial assets at amortized cost		
– Asset backed securitization	8,014	8,014
– Trust plans and asset management plans	186,143,321	186,327,354
	<u>186,151,335</u>	<u>186,335,368</u>
At December 31, 2018		
Financial assets at fair value through profit or loss		
– Fund investments	82,342,692	82,342,692
– Asset backed securitization	1,070,977	1,070,977
– Trust plans and asset management plans	2,078,695	2,078,695
– Wealth management products sponsored by other banks	2,010,739	2,067,689
	<u>85,493,103</u>	<u>85,560,053</u>
Financial assets at fair value through other comprehensive income		
– Asset backed securitization	102,880	102,880
	<u>102,880</u>	<u>102,880</u>
Financial assets at amortized cost		
– Asset backed securitization	31,429	31,429
– Wealth management products sponsored by other banks	1,041,819	1,079,080
– Trust plans and asset management plans	206,198,925	207,361,833
	<u>207,272,173</u>	<u>208,472,342</u>

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

(a) Credit commitments and financial guarantee

	June 30, 2019	December 31, 2018
Acceptances	250,019,822	235,898,843
Letters of credit issued	113,919,154	108,843,659
Letters of guarantee issued	28,278,422	28,335,149
– Letters of financial guarantee	19,617,215	18,950,459
– Letters of non-financial guarantee	8,657,712	9,381,471
– Letters of guarantee	3,495	3,219
Corporate loan commitments	1,557,154	690,932
Unused credit card limit	14,617,247	17,648,356
Total	408,391,799	391,416,939

(b) Capital commitments

	June 30, 2019	December 31, 2018
Authorized but not contracted	5,143,225	5,673,455
Contracted but not yet incurred	1,127,215	1,996,036
Total	6,270,440	7,669,491

(c) Operating leasing commitments

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

	June 30, 2019	December 31, 2018
Within one year	N/A	698,228
Between one year and five years	N/A	2,222,839
More than five years	N/A	1,318,208
Total	N/A	4,239,275

(d) Legal proceedings

As at June 30, 2019, the management of the Group believes the legal proceedings initiated against the Group does not have material impact on the Group's financial position or operations.

38 ASSETS PLEDGED

	June 30, 2019	December 31, 2018
Bonds	86,739,922	70,481,872
Bills	11,455,275	8,305,166
Corporate loans	92,750,000	66,370,000
Total	<u>190,945,197</u>	<u>145,157,038</u>

Assets above are pledged as collateral mainly for the repurchase agreements with PCOB and financial institutions, securities lending and medium-term lending facility.

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

	June 30, 2019	December 31, 2018
Financial guarantees and credit related commitments	<u>95,530,232</u>	<u>99,307,827</u>

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBIRC 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.

40 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, 2019	December 31, 2018
Cash	474,878	519,035
Surplus deposit reserve with central bank	24,263,367	20,480,043
Due from banks and other financial institutions	<u>18,804,616</u>	<u>16,639,735</u>
Total	<u>43,542,861</u>	<u>37,638,813</u>

41 RELATED PARTY TRANSACTIONS

Related party transactions are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties. Transactions with related party are as follows:

(a) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group

Name of Shareholders	Shareholding Ratio (%)	
	June 30, 2019	December 31, 2018
Zhejiang Provincial Financial Holdings Co., Ltd.	14.19	14.19

- (1) Balance and relevant interest rate spectrum of transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group are as follows:

	June 30, 2019	December 31, 2018
Customer deposits	8,457,807	6,567,161
Provide guarantees or pledges for loans of giving-credit customers	5,034,177	5,489,062
Financial assets measured at amortized cost	2,500,000	4,246,750
Financial assets at fair value through profit or loss	1,855,438	1,868,938
Rate of customer deposits	0.35%-4.32%	0.35%-4.12%

- (2) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group during the period are as follows:

	For the six months ended June 30,	
	2019	2018
Interest expense	185,362	178,755
Net fee and commission income	4	1

41 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other main shareholders and their related parties

Other major shareholders refer to those shareholders who hold or control more than 5% of the Group's shares or voting rights and corporations that has sent directors, supervisors or senior management to the Group (excluding Zhejiang Provincial Financial Holdings).

- (i) Balance and relevant interest rate spectrum of transactions with other main shareholders and their related parties are as follows:

	June 30, 2019	December 31, 2018
Customer deposits	1,274,845	730,186
Loans and advances to customers	1,553,498	811,650
Acceptances	69,203	2,114
Letters of credit	1,305,324	1,521,000
Letters of guarantee	695	—
Provide guarantees or pledges		
for loans of giving-credit customers	4,609,923	4,110,947
Financial assets at fair value through profit or loss	3,735,573	3,588,728
Rate of loans and advances to customers	3.50%-7.51%	3.00%-7.50%
Rate of customer deposits	0.35%-5.10%	0.35%-5.10%

- (ii) Transactions with other main shareholders and their related parties during the period are as follows:

	For the six months ended June 30, 2019	2018
Interest income	54,914	66,727
Interest expense	17,317	27,606
Net fee and commission income	1,630	1,160

41 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with other corporations as related parties

Other corporations as related parties refer to those shareholders who hold or control less than 5% of the Group's shares or voting rights.

- (i) Balance and relevant interest rate spectrum of transactions with other legal entities as related parties are as follows:

	June 30, 2019	December 31, 2018
Customer deposits	424,527	3,098,625
Loans and advances to customers	372,719	458,100
Acceptances	–	13,930
Letters of credit	50,000	231,700
Letters of guarantee	–	33
Provide guarantees or pledges for		
loans of giving-credit customers	4,215,312	4,716,359
Financial assets measured at amortized cost	4,052,723	3,954,522
Financial assets at fair value through profit or loss	–	347,654
Financial assets at fair value through		
other comprehensive income	1,098,408	1,098,663
Rate of loans and advances to customers	3.00%-6.60%	3.00%-6.50%
Rate of customer deposits	0.35%-4.80%	0.35%-2.35%

- (ii) Transactions with other legal entities as related parties during the period are as follows:

	For the six months ended June 30, 2019	2018
Interest income	6,094	12,770
Interest expense	76,698	8,558
Net fee and commission income	188	7,338

41 RELATED PARTY TRANSACTIONS (Continued)

- (d) The amounts and relevant interest rate spectrum of transactions with the Group's directors, supervisors and senior management and their family members are as follows:

	June 30, 2018	December 31, 2018
Customer deposits	2,973	4,650
Loans and advances to customers	6,121	6,199
Provide guarantees or pledges for loans of giving-credit customers	–	4,163
Rate of loans and advances to customers	3.43%-6.00%	3.43%-8.96%
Rate of customer deposits	0.35%-3.25%	0.05%-3.25%
	For the six months ended June 30,	2018
	2019	
Interest income	114	–
Interest expense	36	102
Net fee and commission income	1	–

In addition, Yongli Properties Group Limited, which is under control of the Group's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for Shaoxing Branch of the Group: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rent is RMB3,000 thousand for the first two years; for the third to the fifth year, the rent rises by 5% on the basis of the second year rental. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rent of RMB650 thousand. In accordance with the resolution of the general meeting of shareholders on June 27, 2018, Zhou Yang was not a supervisor of the Group on June 30, 2019.

- (e) Government related entities

The transactions between the Group 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 Group 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.

41 RELATED PARTY TRANSACTIONS *(Continued)*

(f) Transactions between the Bank and the subsidiary

Transactions between the Bank and the subsidiary are based on market prices with the normal business procedure or are performed according to the Bank's contractual obligations, and are reviewed by the corresponding decision-making body depending on the types of transactions and the contents of transactions. During the reporting period, transactions between the Bank and the subsidiary were not significant.

(g) Key management personnel remuneration

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

The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended June 30, 2019 and the six months ended June 30, 2018, the Group had no material banking transactions with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended June 30,	
	2019	2018
Fees	1,050	900
Salaries and allowances and benefits	9,791	8,034
Discretionary bonuses	17,992	25,668
Contribution to pension	1,412	266
Total	30,245	34,868

(a) Business segments

The Group manages its operations from both business and geographic perspectives. From the business perspective, the Group 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 other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc.
- 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, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.
- Others—Others comprise components of the Group that are not attributable to any of the above segments and the relevant business of subsidiaries.

42 SEGMENT REPORTING (Continued)
(a) Business segments (Continued)

	For the six months ended June 30, 2019				Total
	Corporate banking	Retail banking	Treasury business	Others	
External interest income	20,226,381	6,951,222	10,714,308	857,826	38,749,737
External interest expense	(12,782,321)	(2,438,131)	(7,093,126)	(485,632)	(22,799,210)
Inter-segment net interest income/(expenses)	<u>4,448,460</u>	<u>(1,247,399)</u>	<u>(3,273,476)</u>	<u>72,415</u>	<u>–</u>
Net interest income	11,892,520	3,265,692	347,706	444,609	15,950,527
Net fee and commission income	1,225,620	539,134	782,628	19,547	2,566,929
Net trading gains	–	–	3,085,923	–	3,085,923
Net gains on financial investments	181,867	–	576,725	1,772	760,364
Other operating income	1,020	1,143	63,926	143,803	209,892
Operating income	13,301,027	3,805,969	4,856,908	609,731	22,573,635
Operating expenses	(3,306,731)	(1,148,180)	(1,398,386)	(211,072)	(6,064,369)
– Depreciation and amortization	<u>(351,196)</u>	<u>(100,634)</u>	<u>(200,943)</u>	<u>(1,417)</u>	<u>(654,190)</u>
Expected credit loss	<u>(3,408,480)</u>	<u>(959,338)</u>	<u>(3,195,497)</u>	<u>(201,816)</u>	<u>(7,765,131)</u>
Profit before income tax	<u>6,585,816</u>	<u>1,698,451</u>	<u>263,025</u>	<u>196,843</u>	<u>8,744,135</u>
Capital expenditure	<u>731,399</u>	<u>184,265</u>	<u>318,037</u>	<u>49,699</u>	<u>1,283,400</u>
	June 30, 2019				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	1,020,699,153	248,005,290	428,051,195	30,591,410	1,727,347,048
Unallocated assets					<u>9,922,203</u>
Total assets					<u>1,737,269,251</u>
Segment liabilities	<u>(935,555,661)</u>	<u>(126,508,613)</u>	<u>(554,021,697)</u>	<u>(12,096,415)</u>	<u>(1,628,182,386)</u>

42 SEGMENT REPORTING (Continued)
(a) Business segments (Continued)

	For the six months ended June 30, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	16,644,948	4,424,955	13,126,521	373,711	34,570,135
Other interest income	–	–	990,551	–	990,551
External interest expense	(10,195,888)	(1,232,080)	(11,336,293)	(171,709)	(22,935,970)
Inter-segment net interest income/(expenses)	<u>4,021,166</u>	<u>(1,252,504)</u>	<u>(2,768,662)</u>	<u>–</u>	<u>–</u>
Net interest income	10,470,226	1,940,371	12,117	202,002	12,624,716
Net fee and commission income	663,902	319,674	1,321,488	32,884	2,337,948
Net trading gains	–	–	2,768,779	–	2,768,779
Net investment income	402,146	–	173,018	–	575,164
Other operating income	3,000	5,768	127,636	153,049	289,453
Operating income	11,539,274	2,265,813	4,403,038	387,935	18,596,060
Operating expenses	(3,051,481)	(935,898)	(1,522,676)	(61,811)	(5,571,866)
– Depreciation and amortization	<u>(153,560)</u>	<u>(32,619)</u>	<u>(123,021)</u>	<u>(11,902)</u>	<u>(321,102)</u>
Expected credit loss	<u>(4,520,985)</u>	<u>(449,774)</u>	<u>67,550</u>	<u>(175,267)</u>	<u>(5,078,476)</u>
Profit before income tax	<u>3,966,808</u>	<u>880,141</u>	<u>2,947,912</u>	<u>150,857</u>	<u>7,945,718</u>
Capital expenditure	<u>474,112</u>	<u>81,159</u>	<u>184,717</u>	<u>16,559</u>	<u>756,547</u>
	December 31, 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	974,069,145	209,861,417	425,768,389	28,676,128	1,638,375,079
Unallocated assets					<u>8,319,665</u>
Total assets					<u>1,646,694,744</u>
Segment liabilities	<u>(884,840,540)</u>	<u>(99,390,810)</u>	<u>(550,604,487)</u>	<u>(9,410,370)</u>	<u>(1,544,246,207)</u>

(b) Geographical segments

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

- “Yangtze River Delta Region” refers to the head office, Zheyin Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan, Hefei;
- “Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;
- “Pearl River Delta Region” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hongkong; and
- “Midwestern China” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Guiyang, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha.

42 SEGMENT REPORTING (Continued)
(b) Geographical segments (Continued)

	For the six months ended June 30, 2019					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
External interest income	23,188,060	6,228,559	2,655,084	6,678,034	–	38,749,737
External interest expense	(15,382,587)	(3,473,906)	(1,544,111)	(2,398,606)	–	(22,799,210)
Inter-segment net interest income/(expenses)	<u>1,083,065</u>	<u>141,416</u>	<u>67,266</u>	<u>(1,291,747)</u>	<u>–</u>	<u>–</u>
Net interest income	8,888,538	2,896,069	1,178,239	2,987,681	–	15,950,527
Net fee and commission income	1,130,481	568,194	271,539	596,715	–	2,566,929
Net trading gains	2,240,741	236,934	296,098	312,150	–	3,085,923
Net gains on financial investments	470,948	147,785	47,773	93,858	–	760,364
Other operating income	106,032	37,846	5,792	60,222	–	209,892
Operating income	12,836,740	3,886,828	1,799,441	4,050,626	–	22,573,635
Operating expenses	(3,776,601)	(916,382)	(410,829)	(960,557)	–	(6,064,369)
– Depreciation and amortization	<u>(374,573)</u>	<u>(92,858)</u>	<u>(55,706)</u>	<u>(131,053)</u>	<u>–</u>	<u>(654,190)</u>
Expected credit loss	<u>(3,244,190)</u>	<u>(1,870,711)</u>	<u>(1,258,009)</u>	<u>(1,392,221)</u>	<u>–</u>	<u>(7,765,131)</u>
Profit before income tax	<u>5,815,949</u>	<u>1,099,735</u>	<u>130,603</u>	<u>1,697,848</u>	<u>–</u>	<u>8,744,135</u>
Capital expenditure	<u>655,592</u>	<u>482,623</u>	<u>14,254</u>	<u>130,931</u>	<u>–</u>	<u>1,283,400</u>
	June 30, 2019					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
Segment assets	1,751,149,534	272,403,575	142,075,817	286,559,798	(724,841,676)	1,727,347,048
Unallocated assets						<u>9,922,203</u>
Total assets						<u>1,737,269,251</u>
Segment liabilities	<u>(1,655,336,446)</u>	<u>(272,369,185)</u>	<u>(142,146,522)</u>	<u>(283,171,909)</u>	<u>724,841,676</u>	<u>(1,628,182,386)</u>

42 SEGMENT REPORTING (Continued)
(b) Geographical segments (Continued)

	For the six months ended June 30, 2018					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
External interest income	21,312,186	5,364,931	2,432,770	5,460,248	–	34,570,135
Other interest income	990,551	–	–	–	–	990,551
External interest expense	(15,997,309)	(2,665,899)	(1,564,414)	(2,708,348)	–	(22,935,970)
Inter-segment net interest income/(expenses)	676,247	(268,556)	(31,322)	(376,369)	–	–
Net interest income	6,981,675	2,430,476	837,034	2,375,531	–	12,624,716
Net fee and commission income	1,371,174	394,706	165,608	406,460	–	2,337,948
Net trading gains/(losses)	1,852,151	205,680	463,962	246,986	–	2,768,779
Net investment income	334,552	22,802	26,344	191,466	–	575,164
Other operating income	179,300	18,169	2,639	89,345	–	289,453
Operating income	10,718,852	3,071,833	1,495,587	3,309,788	–	18,596,060
Operating expenses	(3,366,918)	(775,142)	(525,725)	(904,081)	–	(5,571,866)
– Depreciation and amortization	(249,972)	(26,841)	(7,455)	(36,834)	–	(321,102)
Expected credit loss	(1,789,199)	(1,754,386)	(545,434)	(989,457)	–	(5,078,476)
Profit before income tax	<u>5,562,735</u>	<u>542,305</u>	<u>424,428</u>	<u>1,416,250</u>	<u>–</u>	<u>7,945,718</u>
Capital expenditure	<u>483,234</u>	<u>66,746</u>	<u>53,823</u>	<u>152,744</u>	<u>–</u>	<u>756,547</u>
	December 31, 2018					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
Segment assets	1,718,680,404	286,637,355	142,358,064	282,867,848	(792,168,592)	1,638,375,079
Unallocated assets						8,319,665
Total assets						<u>1,646,694,744</u>
Segment liabilities	<u>(1,624,144,713)</u>	<u>(287,877,156)</u>	<u>(142,659,582)</u>	<u>(281,733,348)</u>	<u>792,168,592</u>	<u>(1,544,246,207)</u>

Overview

The Group'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 risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and 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 Group, 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 Group is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

(a) Movements in book value and ECL allowance

(i) *Movements of loans and advances to customers in book value and ECL allowance are summarized as follows:*

Corporate loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Book value as at December 31, 2018	640,851,260	12,978,085	9,362,151	663,191,496
Transfers				
Transfer from Stage 1 to Stage 2	(5,427,113)	5,427,113	–	–
Transfer from Stage 2 to Stage 1	8,000	(8,000)	–	–
Transfer from Stage 1 to Stage 3	(910,438)	–	910,438	–
Transfer from Stage 2 to Stage 3	–	(2,075,051)	2,075,051	–
Transfer from Stage 3 to Stage 2	–	22,750	(22,750)	–
Financial assets terminated this year (except write-offs)	(52,080,335)	(3,779,932)	(451,946)	56,312,213
Newly originated	84,546,813	4,824,297	2,800	89,373,910
Write-offs	–	–	(958,430)	(958,430)
Change in fair value	(37,806)	(21)	(2)	(37,829)
Other changes	5,362	(4)	(48)	5,310
Subtotal	666,955,743	17,389,237	10,917,264	695,262,244
Change of accrued interest	(343,179)	5,888	–	(337,291)
Book value as at June 30, 2019	666,612,564	17,395,125	10,917,264	694,924,953
Personal loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Book value as at December 31, 2018	199,685,777	1,026,021	1,329,375	202,041,173
Transfers				
Transfer from Stage 1 to Stage 2	(531,909)	531,909	–	–
Transfer from Stage 2 to Stage 1	32,068	(32,068)	–	–
Transfer from Stage 1 to Stage 3	(664,418)	–	664,418	–
Transfer from Stage 2 to Stage 3	–	(394,403)	394,403	–
Financial assets terminated this year (except write-offs)	(29,961,365)	(79,502)	(30,856)	(30,071,723)
Newly originated	65,541,858	239,562	61,492	65,842,912
Write-offs	–	–	(147,559)	(147,559)
Subtotal	234,102,011	1,291,519	2,271,273	237,664,803
Change of accrued interest	112,429	242	–	112,671
Book value as at June 30, 2019	234,214,440	1,291,761	2,271,273	237,777,474

(a) Movements in book value and ECL allowance (Continued)

(i) *Movements of loans and advances to customers in book value and ECL allowance are summarized as follows (Continued):*

Corporate loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Book value as at January 1, 2018	522,103,765	9,238,918	7,603,594	538,946,277
Transfers				
Transfer from Stage 1 to Stage 2	(5,107,206)	5,107,206	–	–
Transfer from Stage 2 to Stage 1	122,646	(122,646)	–	–
Transfer from Stage 1 to Stage 3	(1,936,938)	–	1,936,938	–
Transfer from Stage 2 to Stage 3	–	(3,113,978)	3,113,978	–
Financial assets terminated this year (except write-offs)	(22,033,824)	(1,106,447)	(1,630,320)	(24,770,591)
Newly originated	144,049,530	2,932,838	8,800	146,991,168
Write-offs	–	–	(1,681,840)	(1,681,840)
Change in fair value	146,823	–	83	146,906
Other changes	1,468,623	916	10,918	1,480,457
Subtotal	638,813,419	12,936,807	9,362,151	661,112,377
Change of accrued interest	2,037,841	41,278	–	2,079,119
Book value as at December 31, 2018	<u>640,851,260</u>	<u>12,978,085</u>	<u>9,362,151</u>	<u>663,191,496</u>
Personal loans and advances	Book value			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Book value as at January 1, 2018	132,339,669	713,891	879,097	133,932,657
Transfers				
Transfer from Stage 1 to Stage 2	(446,533)	446,533	–	–
Transfer from Stage 2 to Stage 1	19,499	(19,499)	–	–
Transfer from Stage 1 to Stage 3	(725,171)	–	725,171	–
Transfer from Stage 2 to Stage 3	–	(159,616)	159,616	–
Financial assets terminated this year (except write-offs)	(50,896,604)	(374,307)	(368,688)	(51,639,599)
Newly originated	118,764,612	415,780	189,097	119,369,489
Write-offs	–	–	(254,918)	(254,918)
Subtotal	199,055,472	1,022,782	1,329,375	201,407,629
Change of accrued interest	630,305	3,239	–	633,544
Book value as at December 31, 2018	<u>199,685,777</u>	<u>1,026,021</u>	<u>1,329,375</u>	<u>202,041,173</u>

(a) Movements in book value and ECL allowance (Continued)

(i) *Movements of loans and advances to customers in book value and ECL allowance are summarized as follows (Continued):*

Corporate loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at December 31, 2018	13,934,625	3,211,021	6,772,168	23,917,814
Newly originated	2,446,453	1,219,571	1,031	3,667,055
Change in parameters	(2,457,773)	136,369	464,118	(1,857,286)
Termination (except write-offs and transfer out)	(420,639)	(664,118)	(232,245)	(1,317,002)
Transfers				
Transfer from Stage 1 to Stage 2	(215,863)	1,580,585	–	1,364,722
Transfer from Stage 2 to Stage 1	39	(2,554)	–	(2,515)
Transfer from Stage 1 to Stage 3	(18,378)	–	369,777	351,399
Transfer from Stage 2 to Stage 3	–	(428,500)	1,131,966	703,466
Transfer from Stage 3 to Stage 2	–	6,594	(14,559)	(7,965)
Subtotal	(666,161)	1,847,947	1,720,088	2,901,874
Write-offs (i)	–	–	(958,430)	(958,430)
Transfer out	–	–	(344,096)	(344,096)
Recovered loans and advances previously written off	–	–	137,862	137,862
Unwinding of discount on ECL allowance	–	–	(47,711)	(47,711)
Impact of exchange rate	1,373	(1)	(31)	1,341
ECL allowance as at June 30, 2019	<u>13,269,837</u>	<u>5,058,967</u>	<u>7,279,850</u>	<u>25,608,654</u>
Personal loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at December 31, 2018	3,306,248	170,838	761,879	4,238,965
Newly originated	839,699	31,571	26,070	897,340
Change in parameters	(141,534)	19,913	177,769	56,148
Termination (except write-offs)	(505,665)	(21,966)	(24,837)	(552,468)
Transfers				
Transfer from Stage 1 to Stage 2	(16,309)	143,302	–	126,993
Transfer from Stage 2 to Stage 1	868	(7,983)	–	(7,115)
Transfer from Stage 1 to Stage 3	(28,179)	–	319,099	290,920
Transfer from Stage 2 to Stage 3	–	(103,338)	250,858	147,520
Subtotal	148,880	61,499	748,959	959,338
Write-offs (i)	–	–	(147,559)	(147,559)
Recovered loans and advances previously written off	–	–	33,674	33,674
Unwinding of discount on ECL allowance	–	–	(18,038)	(18,038)
ECL allowance as at June 30, 2019	<u>3,455,128</u>	<u>232,337</u>	<u>1,378,915</u>	<u>5,066,380</u>

(i) On June 30, 2019, the outstanding contractual amount corresponding to assets written off by the Group was RMB1,105,989 thousand and the Group still tried to recover the legally entitled claims in full.

(a) Movements in book value and ECL allowance (Continued)

(i) *Movements of loans and advances to customers in book value and ECL allowance are summarized as follows (Continued):*

Corporate loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	11,434,519	1,934,148	5,382,531	18,751,198
Newly originated	3,481,544	938,892	7,221	4,427,657
Change in parameters	(555,283)	(65,961)	855,937	234,693
Termination (except write-offs and transfer out)	(306,452)	(268,211)	(803,317)	(1,377,980)
Transfers				
Transfer from Stage 1 to Stage 2	(95,219)	1,533,163	–	1,437,944
Transfer from Stage 2 to Stage 1	4,811	(41,132)	–	(36,321)
Transfer from Stage 1 to Stage 3	(41,486)	–	1,242,332	1,200,846
Transfer from Stage 2 to Stage 3	–	(820,085)	2,335,483	1,515,398
Subtotal	2,487,915	1,276,666	3,637,656	7,402,237
Write-offs (i)	–	–	(1,681,840)	(1,681,840)
Transfer out	–	–	(679,207)	(679,207)
Recovered loans and advances previously written off	–	–	160,512	160,512
Unwinding of discount on ECL allowance	–	–	(54,241)	(54,241)
Impact of exchange rate	12,191	207	6,757	19,155
ECL allowance as at December 31, 2018	13,934,625	3,211,021	6,772,168	23,917,814

Personal loans and advances	Expected credit loss allowance			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
ECL allowance as at January 1, 2018	1,638,110	82,464	567,702	2,288,276
Newly originated	1,698,137	71,023	104,354	1,873,514
Change in parameters	534,056	5,345	49,340	588,741
Termination (except write-offs)	(541,620)	(38,527)	(254,492)	(834,639)
Transfers				
Transfer from Stage 1 to Stage 2	(7,565)	90,260	–	82,695
Transfer from Stage 2 to Stage 1	238	(3,587)	–	(3,349)
Transfer from Stage 1 to Stage 3	(15,108)	–	384,310	369,202
Transfer from Stage 2 to Stage 3	–	(36,140)	97,213	61,073
Subtotal	1,668,138	88,374	380,725	2,137,237
Write-offs (i)	–	–	(254,918)	(254,918)
Recovered loans and advances previously written off	–	–	87,863	87,863
Unwinding of discount on ECL allowance	–	–	(19,493)	(19,493)
ECL allowance as at December 31, 2018	3,306,248	170,838	761,879	4,238,965

(i) On December 31, 2018, the outstanding contractual amount corresponding to assets written off by the Group was RMB1,936,758 thousand and the Group still tried to recover the legally entitled claims in full.

(a) Movements in book value and ECL allowance (Continued)

(ii) Movements of financial assets measured at amortized cost in book value and ECL allowance are summarized as follows:

	Book value			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
Book value as at December 31, 2018	335,403,052	5,375,146	4,549,530	345,327,728
Transfers				
Transfer from Stage 1 to Stage 2	(4,872,781)	4,872,781	–	–
Transfer from Stage 2 to Stage 1	245,950	(245,950)	–	–
Transfer from Stage 1 to Stage 3	(4,644,770)	–	4,644,770	–
Transfer from Stage 2 to Stage 3	–	(1,129,477)	1,129,477	–
Financial assets terminated this year	(72,456,268)	(1,754,038)	(11,000)	(74,221,306)
Newly originated	76,464,847	130,000	–	76,594,847
Write-offs	–	–	(1,313,402)	(1,313,402)
Subtotal	330,140,030	7,248,462	8,999,375	346,387,867
Change of accrued interest	515,898	2,565	–	518,463
Book value as at June 30, 2019	<u>330,655,928</u>	<u>7,251,027</u>	<u>8,999,375</u>	<u>346,906,330</u>
	Book value			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
Book value as at January 1, 2018	458,709,142	1,316,588	798,592	460,824,322
Transfers				
Transfer from Stage 1 to Stage 2	(2,231,270)	2,231,270	–	–
Transfer from Stage 1 to Stage 3	(909,750)	–	909,750	–
Transfer from Stage 2 to Stage 3	–	(840,485)	840,485	–
Financial assets terminated this year	(218,440,927)	–	–	(218,440,927)
Newly originated	94,393,958	2,594,434	2,000,703	98,989,095
Subtotal	331,521,153	5,301,807	4,549,530	341,372,490
Change of accrued interest	3,881,899	73,339	–	3,955,238
Book value as at December 31, 2018	<u>335,403,052</u>	<u>5,375,146</u>	<u>4,549,530</u>	<u>345,327,728</u>

(a) Movements in book value and ECL allowance (Continued)

(ii) Movements of financial assets measured at amortized cost in book value and ECL allowance are summarized as follows (Continued):

	Expected credit loss allowance			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
ECL allowance as at December 31, 2018	<u>2,399,820</u>	<u>1,510,540</u>	<u>3,580,958</u>	<u>7,491,318</u>
Newly originated	389,262	20,741	–	410,003
Change in parameters	(520,635)	(404,887)	232,744	(692,778)
Termination (except write-offs)	(190,211)	(362,883)	(6,900)	(559,994)
Transfers				
Transfer from Stage 1 to Stage 2	(75,243)	1,022,099	–	946,856
Transfer from Stage 2 to Stage 1	55	(46,919)	–	(46,864)
Transfer from Stage 1 to Stage 3	(42,212)	–	2,720,110	2,677,898
Transfer from Stage 2 to Stage 3	–	(286,263)	917,251	630,988
Subtotal	<u>(438,984)</u>	<u>(58,112)</u>	<u>3,863,205</u>	<u>3,366,109</u>
Write-offs	<u>–</u>	<u>–</u>	<u>(1,313,402)</u>	<u>(1,313,402)</u>
ECL allowance as at June 30, 2019	<u><u>1,960,836</u></u>	<u><u>1,452,428</u></u>	<u><u>6,130,761</u></u>	<u><u>9,544,025</u></u>
	Expected credit loss allowance			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
ECL allowance as at January 1, 2018	<u>4,285,706</u>	<u>155,474</u>	<u>349,292</u>	<u>4,790,472</u>
Newly originated	564,876	846,869	1,338,182	2,749,927
Change in parameters	(529,551)	30,467	445,598	(53,486)
Termination (except write-offs)	(1,872,003)	–	–	(1,872,003)
Transfers				
Transfer from Stage 1 to Stage 2	(30,563)	632,304	–	601,741
Transfer from Stage 1 to Stage 3	(18,645)	–	696,401	677,756
Transfer from Stage 2 to Stage 3	–	(154,574)	751,485	596,911
Subtotal	<u>(1,885,886)</u>	<u>1,355,066</u>	<u>3,231,666</u>	<u>2,700,846</u>
ECL allowance as at December 31, 2018	<u><u>2,399,820</u></u>	<u><u>1,510,540</u></u>	<u><u>3,580,958</u></u>	<u><u>7,491,318</u></u>

(b) Fair values of financial assets and liabilities**(i) 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 Group'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).

(ii) 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 measured at amortized cost, financial assets measured at amortized cost, due to banks and other financial institutions, customer deposits and debt securities issued.

The table below summarizes the carrying amounts and fair value of those financial assets and financial liabilities that are not measured at fair value, including financial assets measured at amortized cost, 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 amounts.

	Carrying value	June 30, 2019			
		Level 1	Fair value Level 2	Level 3	Total
Financial assets					
Financial investments					
— Financial assets measured at amortized cost	<u>337,362,305</u>	<u>—</u>	<u>164,604,436</u>	<u>169,858,748</u>	<u>334,463,184</u>
Financial liabilities					
Debt securities issued	<u>247,978,177</u>	<u>—</u>	<u>244,490,958</u>	<u>—</u>	<u>244,490,958</u>

	Carrying value	December 31, 2018			
		Level 1	Fair value Level 2	Level 3	Total
Financial assets					
Financial investments					
— Financial assets measured at amortized cost	<u>337,836,410</u>	<u>—</u>	<u>179,765,614</u>	<u>170,964,614</u>	<u>350,730,228</u>
Financial liabilities					
Debt securities issued	<u>245,996,763</u>	<u>—</u>	<u>242,477,490</u>	<u>—</u>	<u>242,477,490</u>

(b) Fair values of financial assets and liabilities (Continued)

(ii) Financial instruments not measured at fair value (Continued)

Financial assets measured at amortized cost

Financial assets measured at amortized cost 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 model based on observable yield, the fair value measurement will be included in level 3.

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.

(iii) Financial instruments measured at fair value

June 30, 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities investment	– 41,489,931		–	41,489,931
– Fund investments	– 84,360,735		–	84,360,735
– Trust plans and asset management plans	– 2,449,377		–	2,449,377
– Other equity investment	–		436,103	436,103
Derivative financial assets	– 9,885,487		–	9,885,487
Loans and advances to customers	– 90,554,713		–	90,554,713
Financial assets at fair value through other comprehensive income				
– Debt securities investment	– 51,835,707		–	51,835,707
– Equity investments	–		622,700	622,700
– Other debt instrument	– 36,299,409		–	36,299,409
Total	– 316,875,359	1,058,803		317,934,162
Financial liabilities at fair value through profit or loss	– (10,564,941)		–	(10,564,941)
Derivative financial liabilities	– (11,176,417)		–	(11,176,417)
Total	– (21,741,358)			(21,741,358)

43 FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair values of financial assets and liabilities (Continued)

(iii) Financial instruments measured at fair value (Continued)

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities investment	–	47,915,143	–	47,915,143
– Fund investments	–	82,342,692	–	82,342,692
– Trust plans and asset management plans	–	2,078,695	–	2,078,695
– Wealth management products issued by other banks	–	2,010,739	–	2,010,739
– Other equity investment	–	–	261,994	261,994
Derivative financial assets	–	10,123,361	–	10,123,361
Loans and advances to customers	–	63,358,593	–	63,358,593
Financial assets at fair value through other comprehensive income				
– Debt securities investment	–	46,764,971	–	46,764,971
– Equity investment	–	–	275,000	275,000
– Other debt instrument	–	44,207,936	–	44,207,936
Total	–	298,802,130	536,994	299,339,124
Financial liabilities at fair value through profit or loss	–	(12,483,213)	–	(12,483,213)
Derivative financial liabilities	–	(10,648,171)	–	(10,648,171)
Total	–	(23,131,384)	–	(23,131,384)

The Group 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 Group 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.

44 FIDUCIARY ACTIVITIES

The Group provides custody and trustee services to third parties, and grants entrusted loans on behalf of third-party lenders. They are as follows:

	June 30, 2019	December 31, 2018
Entrusted loans	36,253,817	48,012,517
Entrusted investments	300,000	300,000

45 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material events for disclosure after the balance sheet date.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

1 Liquidity ratios

	June 30, 2019	December 31, 2018
(Expressed in percentage)		
RMB current assets to RMB current liabilities	60.65	53.09
Foreign currency current assets to foreign currency current liabilities	<u>114.35</u>	<u>49.06</u>

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBIRC.

2 International claims

The Group is principally engaged in business operations within Mainland China, and international claims are the sum of local claims in foreign currencies and cross-border claims in all currencies.

International claims include balances with central banks, due from banks and other financial institutions, financial assets at fair value through profit or loss, loans and advances to customers and financial assets measured at amortized cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfer. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

June 30, 2019	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	6,339,499	–	29,737,154	36,076,653
Asia Pacific excluding Mainland China	7,041,401	300,685	3,512,938	10,855,024
– of which attributed to Hong Kong	5,936,711	176,458	3,227,966	9,341,135
Europe	923,891	–	–	923,891
North America	1,754,743	–	–	1,754,743
Oceania	28,824	–	–	28,824
Total	<u>16,088,358</u>	<u>300,685</u>	<u>33,250,092</u>	<u>49,639,135</u>

2 International claims (Continued)

December 31, 2018	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	9,495,496	170,311	35,957,503	45,623,310
Asia Pacific excluding Mainland China	7,658,510	175,398	1,904,681	9,738,589
– of which attributed to Hong Kong	6,453,772	175,398	1,698,927	8,328,097
Europe	249,479	–	–	249,479
North America	2,409,457	–	–	2,409,457
Oceania	71,908	–	–	71,908
Total	19,884,850	345,709	37,862,184	58,092,743

3 Currency concentrations

	US Dollars	Equivalent in RMB HK Dollars	Others	Total
June 30, 2019				
Spot assets	37,820,857	6,974,853	5,242,627	50,038,337
Spot liabilities	(43,544,904)	(755,799)	(1,130,110)	(45,430,813)
Forward purchases	599,588,195	171,740	22,083,697	621,843,632
Forward sales	(581,543,384)	–	(27,072,673)	(608,616,057)
Net options position	17,349,756	–	(1,575,165)	(18,924,921)
Net long position	(5,028,992)	6,390,794	(2,451,624)	(1,089,822)

	US Dollars	Equivalent in RMB HK Dollars	Others	Total
As at December 31, 2018				
Spot assets	45,252,273	6,924,348	5,677,332	57,853,953
Spot liabilities	(48,531,560)	(602,555)	(4,062,936)	(53,197,051)
Forward purchases	453,968,379	34,317	23,340,723	477,343,419
Forward sales	(484,930,588)	–	(27,775,284)	(512,705,872)
Net options position	2,708,010	–	1,237,886	3,945,896
Net long position	(31,533,486)	6,356,110	(1,582,279)	(26,759,655)

4 Overdue and rescheduled assets

(1) Gross amount of overdue loans and advances to customers

	June 30, 2019		December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	3,758,729	27.67	2,335,938	21.93
Between 3 and 6 months	2,271,592	16.72	1,447,055	13.59
Between 6 and 12 months	3,024,076	22.26	2,775,624	26.06
Over 12 months	4,529,686	33.35	4,092,516	38.42
Total	13,584,083	100.00	10,651,133	100.00

(2) Overdue and rescheduled loans and advances to customers

	June 30, 2019	December 31, 2018
Total rescheduled loans and advances to customers	1,770,797	1,604,585
Including: rescheduled loans and advances to customers overdue for not more than 3 months	2,861	52,244
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.00%	0.01%