

China Zheshang Bank Co., Ltd. (2016.HK)
2016 Interim Results Announcement

Disclaimer



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For more financial information regarding the Bank, please refer to the latest interim report of the Bank.



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- 1. Overview of the Bank**
- 2. Financial Performance**
- 3. Business Development**
- 4. Risk Management**
- 5. Outlook**

Overview of the Bank

A nationwide joint-stock commercial bank adopting a full-asset class operation strategy

- One of the 12 nationwide joint-stock commercial banks, headquartered in Hangzhou, Zhejiang
- **144** outlets in 13 provinces and provincial level municipalities in the PRC have been established as of June 30, 2016, covering the Yangtze River Delta Area, the Bohai Rim Area, the Pearl River Delta Area and certain other areas in Central and Western China
- Actively developing our **Hong Kong branch** in order to increase our international presence
- Adhere to the overall goal of “two most” and the “full-asset class operation” strategy



Two
Most

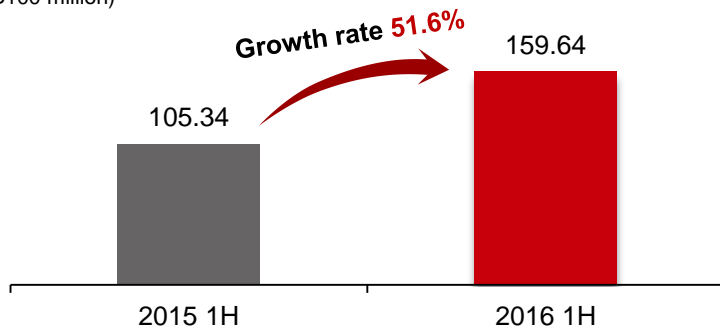
Most competitive nationwide joint-stock commercial bank
Most important financial platform in Zhejiang

Significant improvement in economic benefits, rapid increase in business scale, and good asset quality

Significant improvement in economic benefits

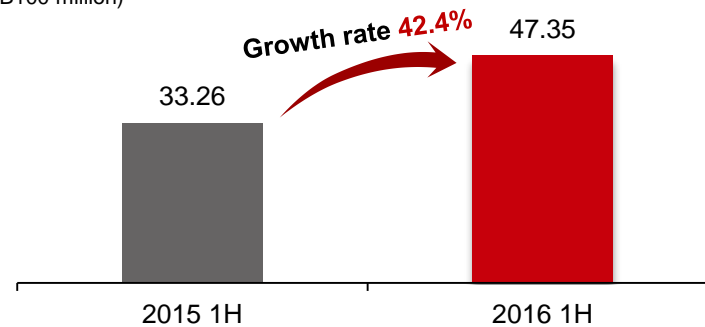
Operating Income

(RMB100 million)



Net Profit Attributable to Shareholders of the Company

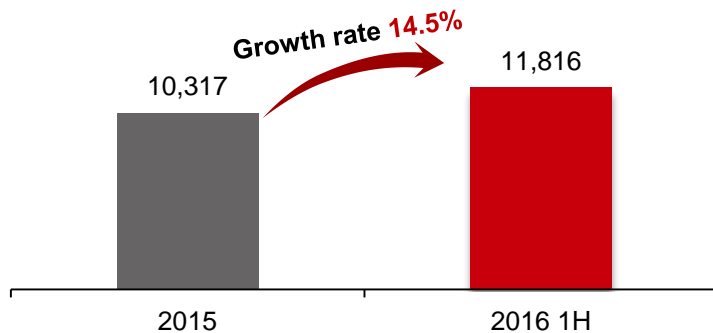
(RMB100 million)



Rapid increase of business scale

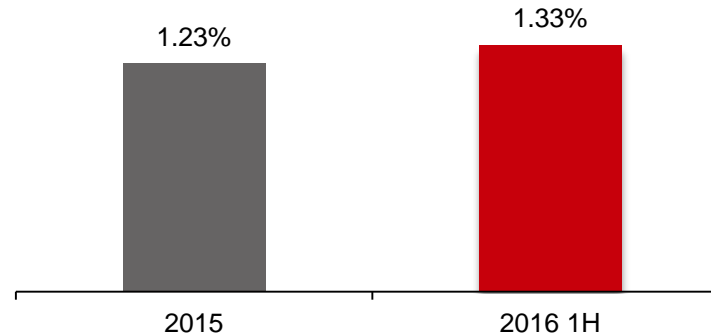
Total Assets

(RMB100 million)



Solid asset quality

Non-performing Loan Ratio



Overview of the Bank

Develop each business segment comprehensively, and enhance brand recognition and social reputation continuously

Comprehensive development of business segments

Corporate business segment

Providing corporate liquidity services and full-value-chain services

Inter-bank financial segment

Providing inter-bank trading services

Full-asset class operation

Small enterprise business

Providing customized services for small and micro enterprises

Personal business

Providing personal wealth management

Award-winning bank

The Banker
TOP 1000
WORLD BANKS 2016

- Ranked **117** among the “Top 1000 World Banks” in terms of total assets, up 28 places

AAA

- A credit rating of **AAA** by CCXI



- Best Bank of Investment Banking
- Best Bond Underwriting Bank
- Best Brand for Wealth Management Products offered by a bank

金融时报

- Best Corporate Liquidity Service Bank



- Excellent Financial Service Team for Small and Micro Enterprises

Key Financial Indicators

Indicator of operating performance (RMB100 million)	2016 1H	2015 1H	Growth rate
Operating income	159.64	105.34	↑51.6%
Net interest income	119.62	91.04	↑31.4%
Net non-interest income	40.03	14.30	↑179.9%
Operating expenses	45.89	31.99	↑43.5%
Impairment losses on assets	51.29	29.26	↑75.3%
Net profit attributable to shareholders of the Company	47.35	33.26	↑42.4%

Profitability indicators	2016 1H	2015 1H	Changes in percentage point
Return on average total assets	0.86%*	0.86%*	Flat
Return on average equity	16.88%*	17.13%*	↓0.25
Net interest margin	2.10%*	2.45%*	↓0.35
Net interest spread	1.91%*	2.24%*	↓0.33
Proportion of net non-interest income	25.07%	13.57%	↑11.50

Scale indicators (RMB100 million)	2016 1H	2015	Growth rate
Total assets	11,816	10,317	↑14.5%
Total loans and advances to customers	4,106	3,454	↑18.9%
Total liabilities	11,185	9,820	↑13.9%
Customer deposits	6,446	5,160	↑24.9%
Shareholders' equity	631	497	↑27.1%

Asset quality indicators	2016 1H	2015	Changes in percentage point
Non-performing loan ratio	1.33%	1.23%	↑0.10
Allowance to total loans	3.06%	2.95%	↑0.11
Allowance to non-performing loans	229.27%	240.83%	↓11.56

Capital adequacy indicators	2016 1H	2015	Changes in percentage point
Core tier-one capital adequacy ratio	10.16%	9.35%	↑0.81
Capital adequacy ratio	11.72%	11.04%	↑0.68

Note: *represents an annualized ratio

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浙商银行
CZBANK

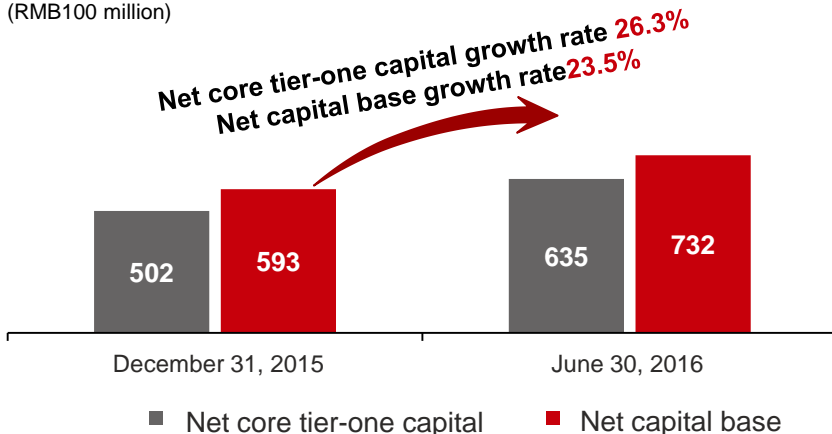
见行 见心 见未来

- 1 Capital replenishment from both internal and external sources, capital adequacy level on the rise
- 2 Rapid growth in business scale, with gradually optimized structure of assets and liabilities
- 3 Adjusted business structure with steadily increasing net interest income
- 4 Diversified sources of net non-interest income, with increasing aggregate amount and proportion
- 5 Prudent provisions for impairment losses on assets and enhancement of risk resistance capability
- 6 Effective control on expenses and reasonable level of cost-to-income ratio
- 7 Rapid growth in net profit and ongoing improvement in operating benefits
- 8 Cautious asset classification and good asset quality

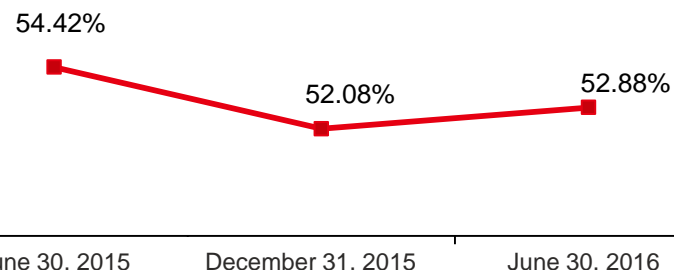
Capital replenishment from both internal and external sources, capital adequacy level on the rise

Net capital base increased rapidly

(RMB100 million)



Asset density remained lower level



Note: Asset density is risk-weighted assets divided by total assets.

Capital replenishment from external sources:

- Replenish tier-one capital through listing

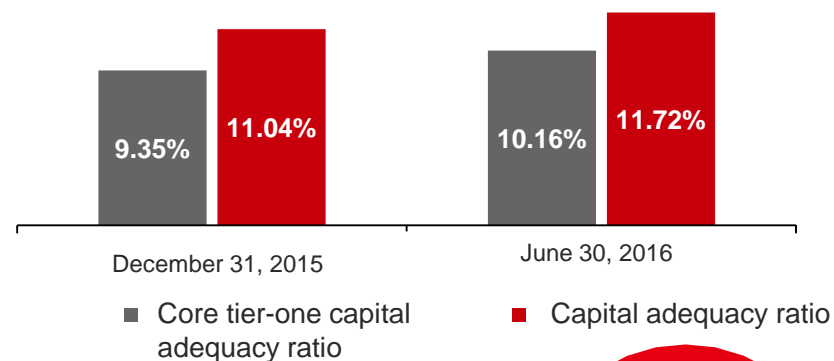
Capital replenishment from internal sources:

- Enhance profitability

Full-asset class operating strategy:

- Adhere to developing capital-efficient business

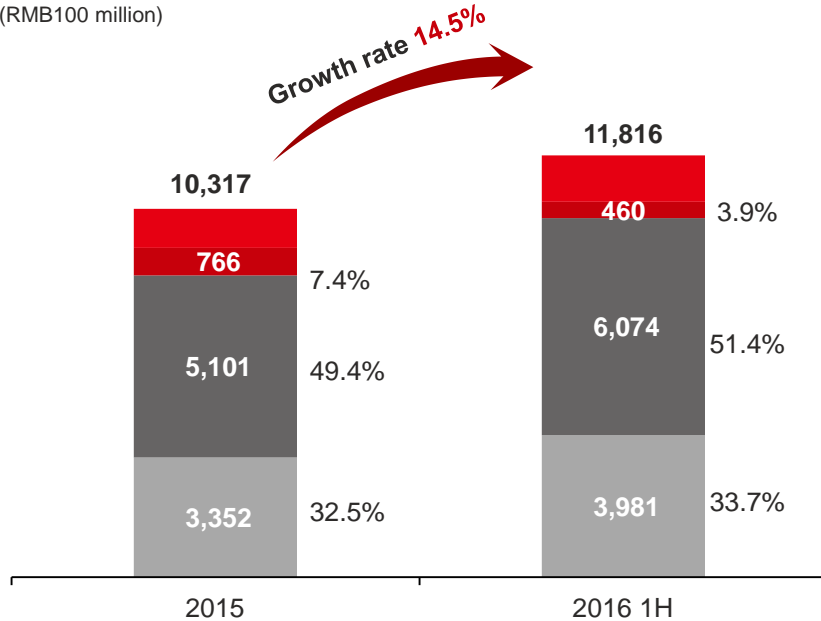
Further improvement on capital adequacy level



Rapid growth in business scale, with gradually optimized structure of assets and liabilities

Reasonable allocation of assets, optimization of the asset structure

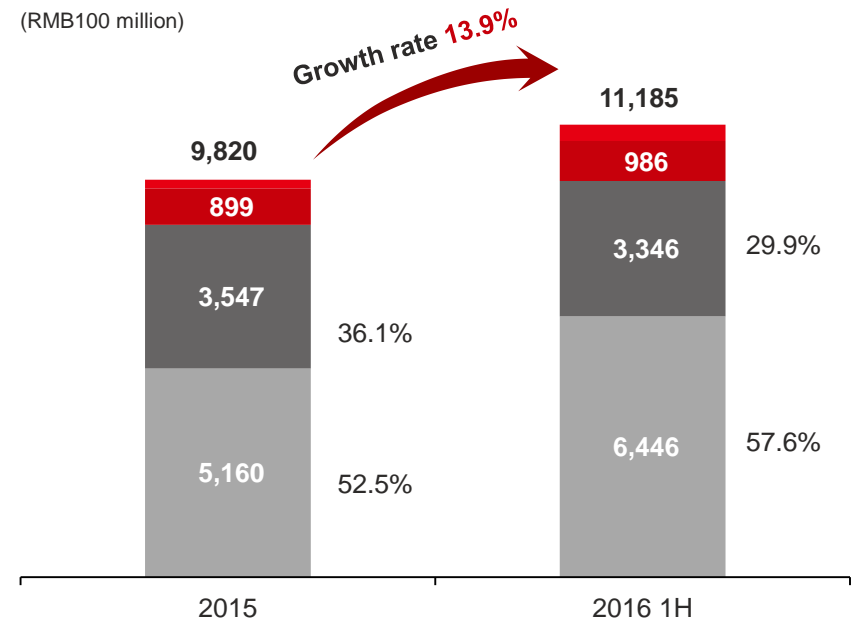
(RMB100 million)



- Others
- Due from banks and other financial institutions
- Financial investments
- Loans and advances to customers

Improved proportion of deposits, optimization of liability structure

(RMB100 million)



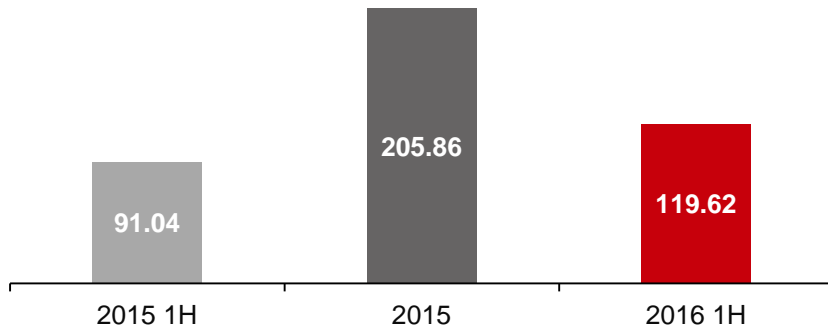
- Others
- Debt securities issued
- Due to banks and other financial institutions
- Customer deposits

- Increase loans to key customers and financial investments, moderately reduce the deposits with banks, gradually optimizing the structure of assets
- Stabilize the source of liabilities, proactively absorbing deposit base, optimizing the liability structure as well
- Loans and advances to customers and customer deposits rose relatively fast, which is expected to achieve one of the highest growth among other banks

3 Adjusted business structure with steadily increasing net interest income

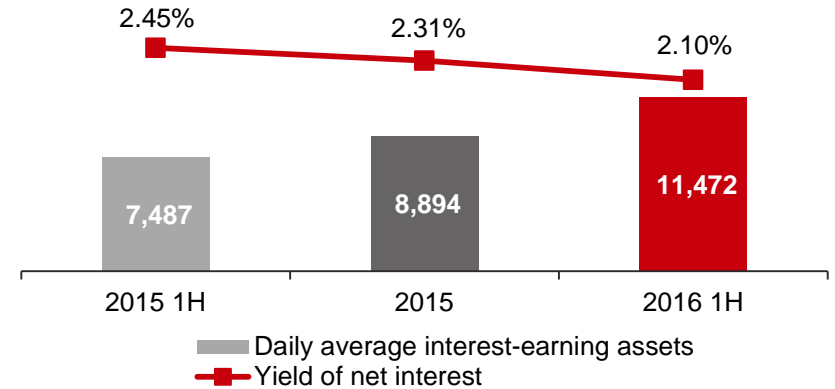
Net interest income year-on-year increased 31.4%

(RMB100 million)



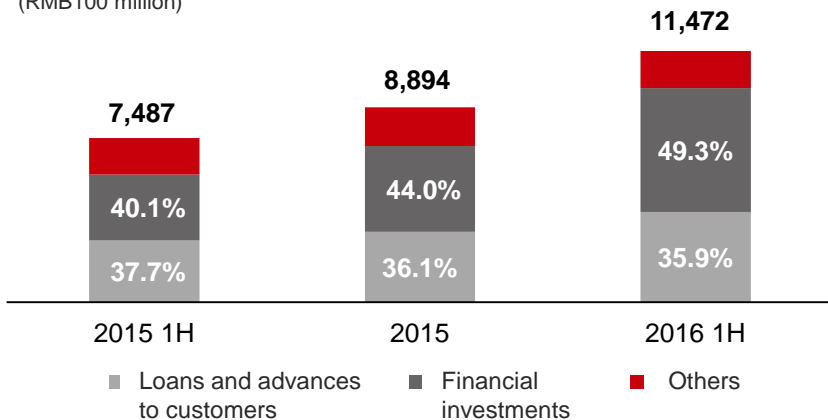
Daily average interest-earning assets and the yield of net interest

(RMB100 million)



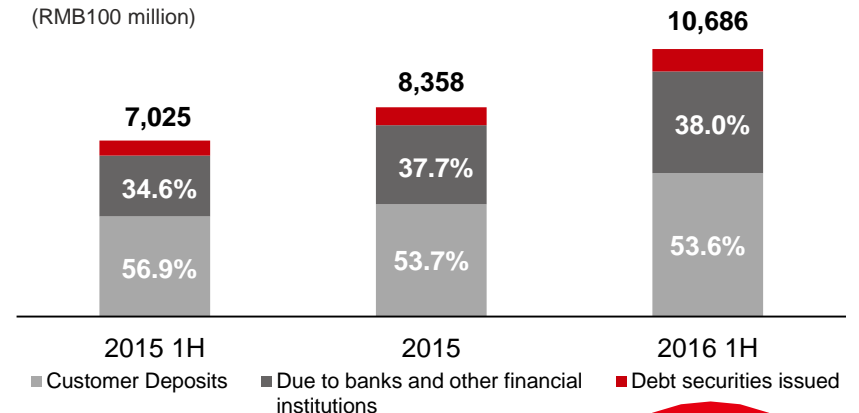
Optimization of the structure of interest-earning assets

(RMB100 million)



Structure of daily average interest-bearing liabilities remained stable

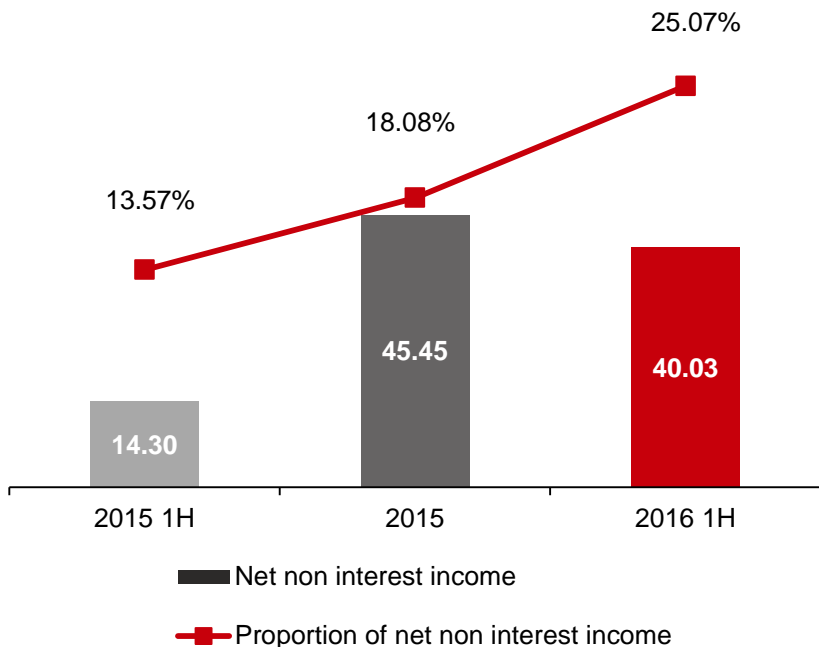
(RMB100 million)



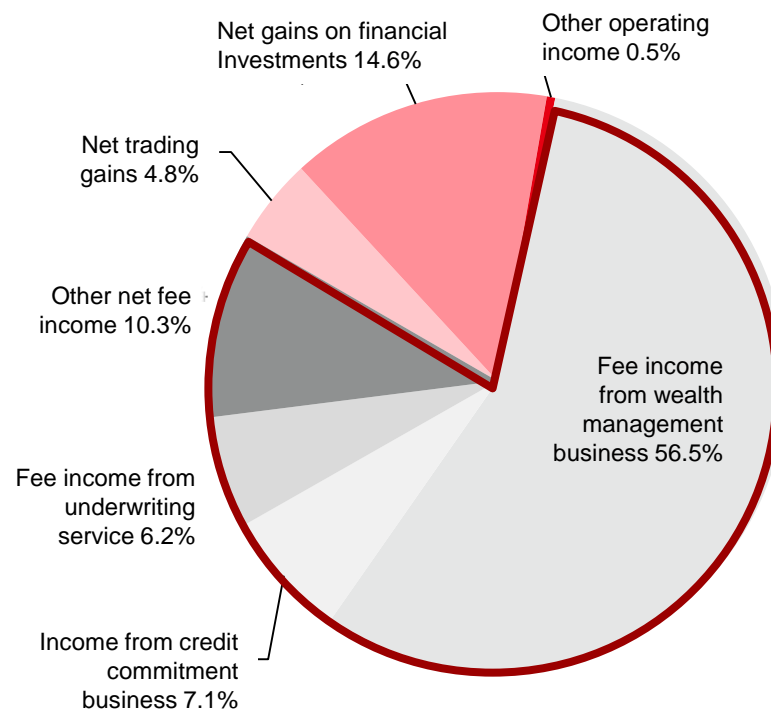
4 Diversified sources of net non-interest income, with increasing aggregate amount and proportion

Net non-interest income increased 179.9% year on year, proportion expanded to 25.07%

(RMB 100 million)



Sources of net non-interest income

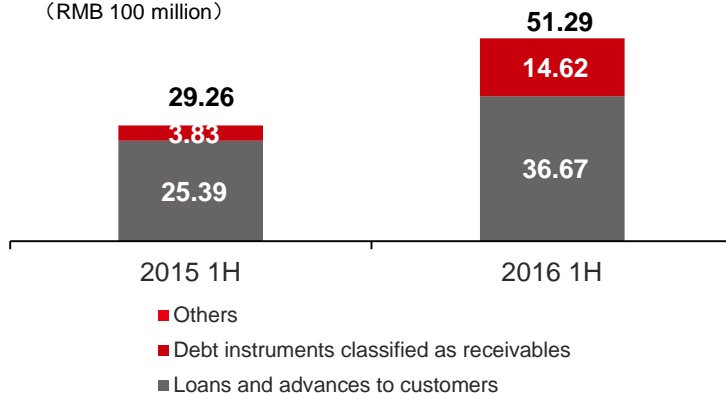


- The net fee income was RMB3.207 billion, representing an year-on-year increase of 123.2%, mainly contributed from wealth management business, credit commitment and underwriting services.
- Our proprietary investment and trading business recorded rapid growth and the sources of net non-interest income are gradually diversified.

5 Prudent provisions for impairment losses on assets and enhancement of risk resistance capability

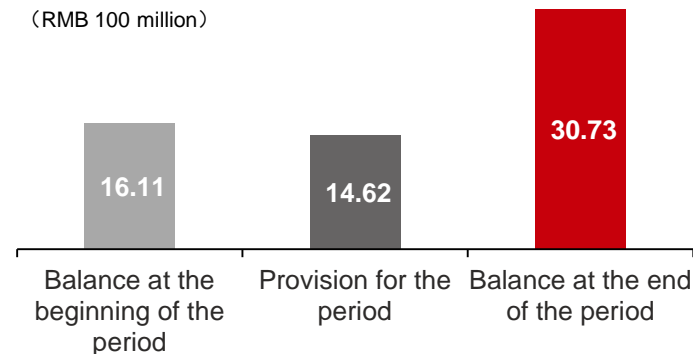
Relatively prudent provisions for impairment losses on assets

(RMB 100 million)



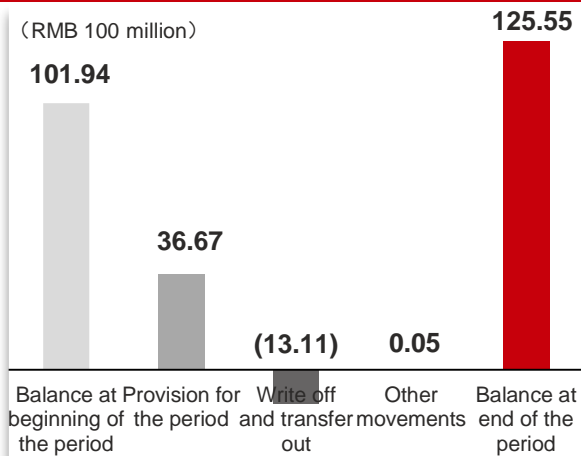
Changes in provisions for the impairment losses on debt instruments classified as receivables

(RMB 100 million)

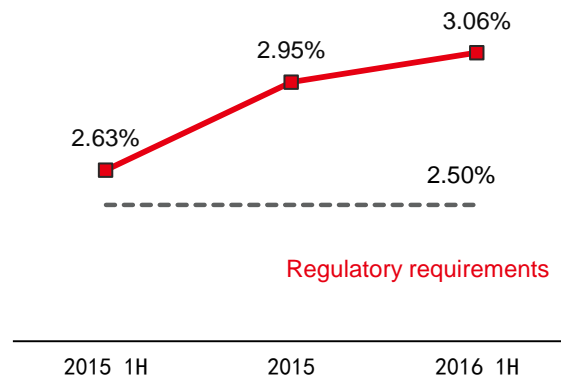


Changes in allowances for impairment losses on loans

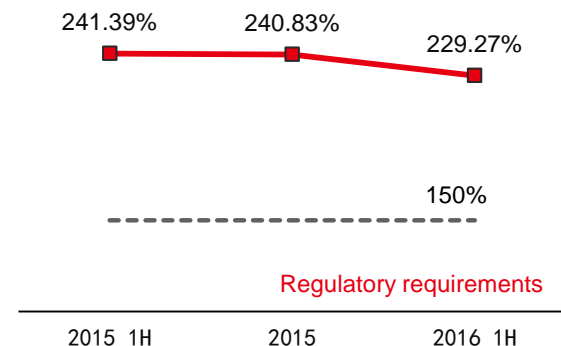
(RMB 100 million)



Continuous Increase in allowance to total loans



Slight decrease in allowance to non-performing loans

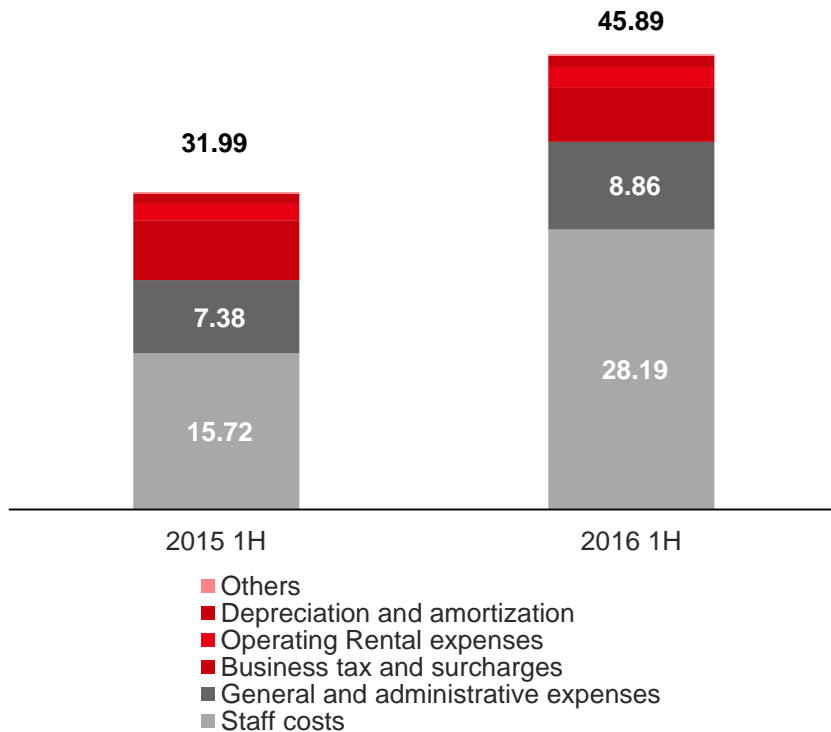


Note: Other movements includes changes in the balance of allowances for impairment losses on loans arisen from unwinding of discount on allowance, recoveries and exchange differences

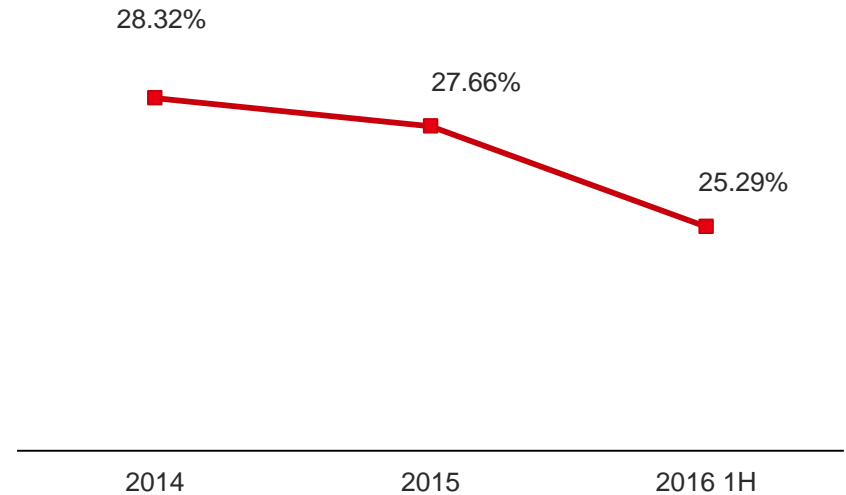
Effective control on expenses and reasonable level of cost-to-income ratio

Operating expenses

(RMB 100 million)



Cost-to-income ratio managed at a reasonable level

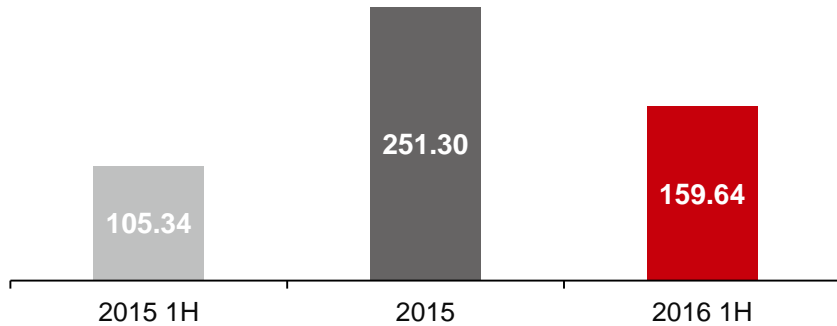


Note: Cost-to-income ratio is calculated by operating expenses (excluding business tax and surcharges) divided by operating income.

Rapid growth in net profit and ongoing improvement in operating benefits

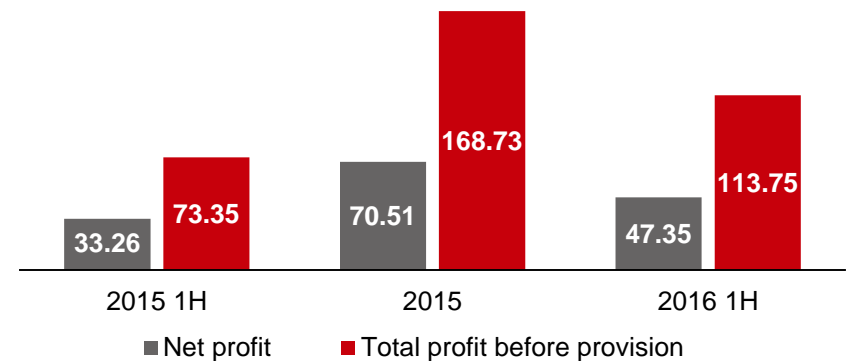
Operating income

(RMB 100 million)

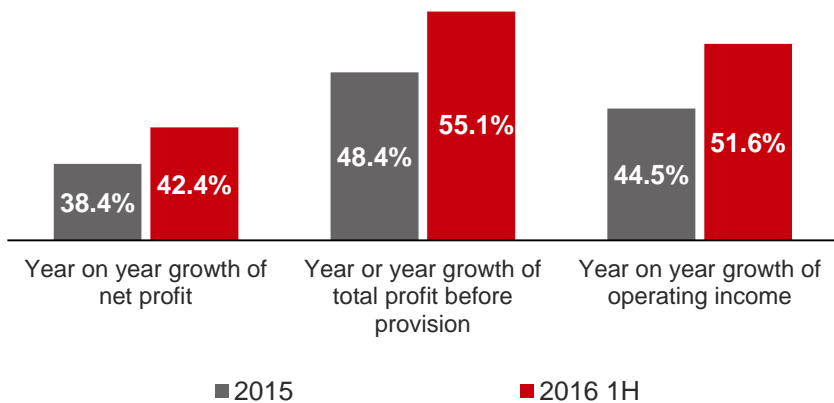


Total profit before provision and net profit of

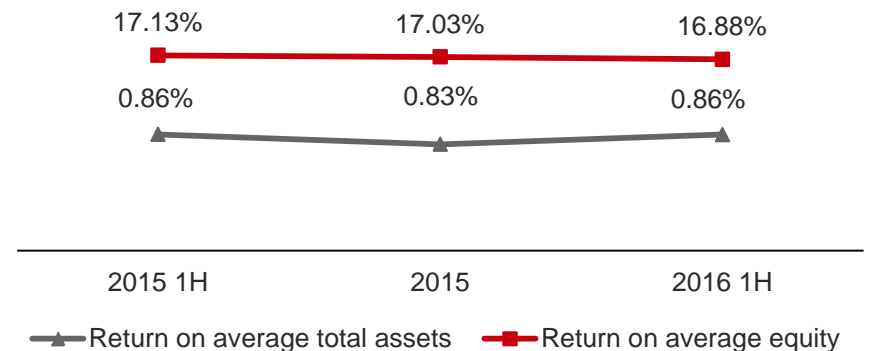
(RMB 100 million)



Accelerating growth of profit level



Return on average equity and return on average total assets

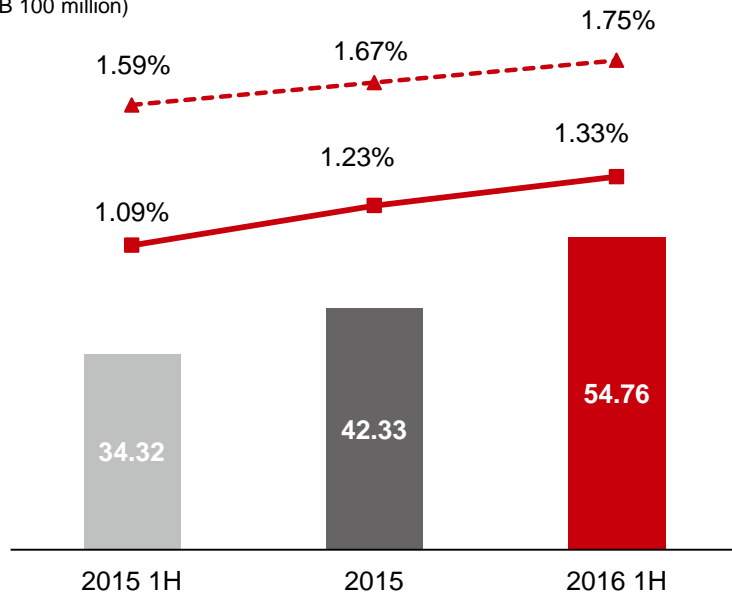


Note: The interim results have been annualized.

Cautious asset classification and good asset quality

Balance of non-performing loans and non-performing loan ratio

(RMB 100 million)

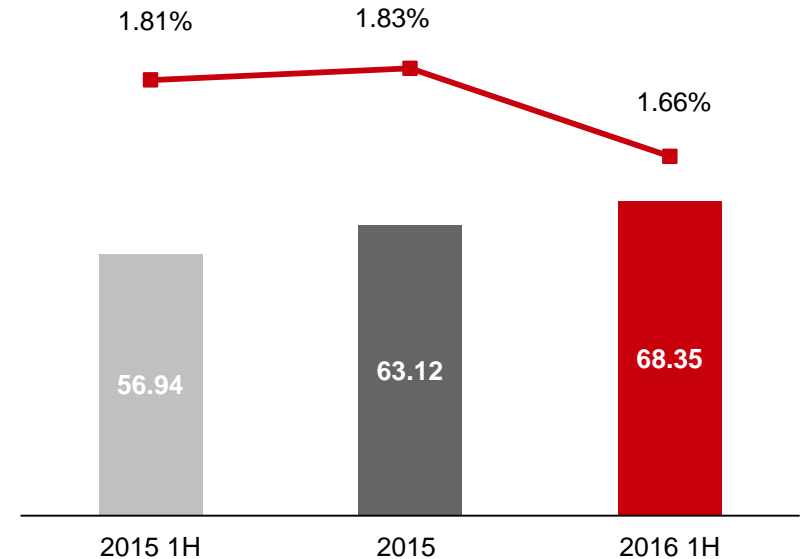


- Balance of non-performing loans
- Non-performing loan ratio
- ▲- Non-performing loan ratio of commercial banks

Note: The non-performing loan ratio of commercial banks is the data disclosed at the official website of China Banking Regulatory Commission

Balance of overdue loans and overdue loan ratio

(RMB 100 million)



- Balance of overdue loans
- Overdue loan ratio

The Bank adopts prudent classification criteria in respect of loans. At the end of June 2016, the ratio of balance of non-performing loans to balance of loans overdue by more than 90 days was 109%.

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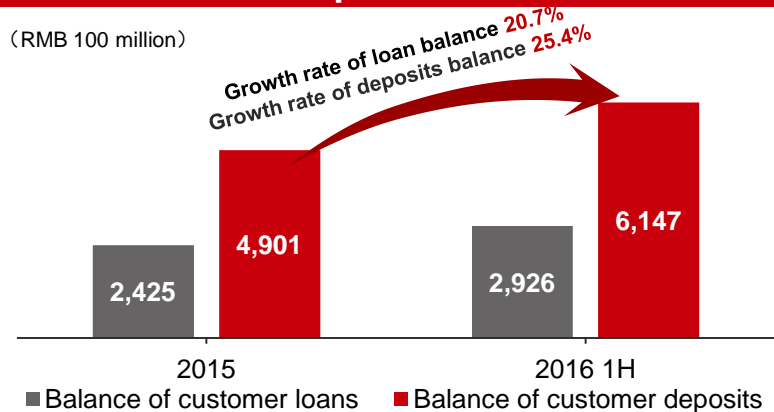
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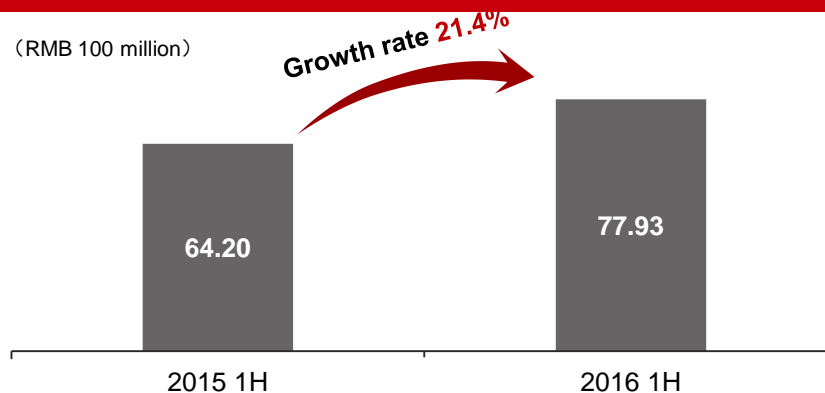
- 1** Two driving forces of corporate business segment and initial success of innovation of system
- 2** Continuous input of Inter-bank financial segment and improved service capacity
- 3** Growth in small enterprise business accelerated and customized bank services upgraded
- 4** Emerging to be a wealth management bank with continuous innovations on personal business

1 Two driving forces of corporate business segment and initial success of innovation of system

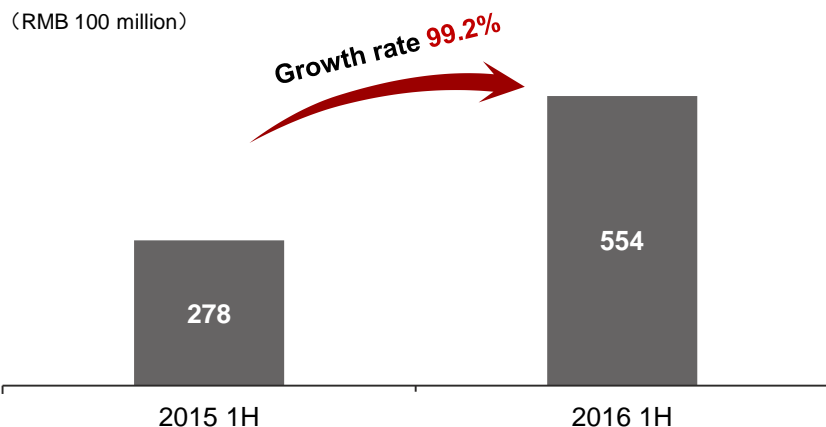
Corporate customers' loans and deposits business



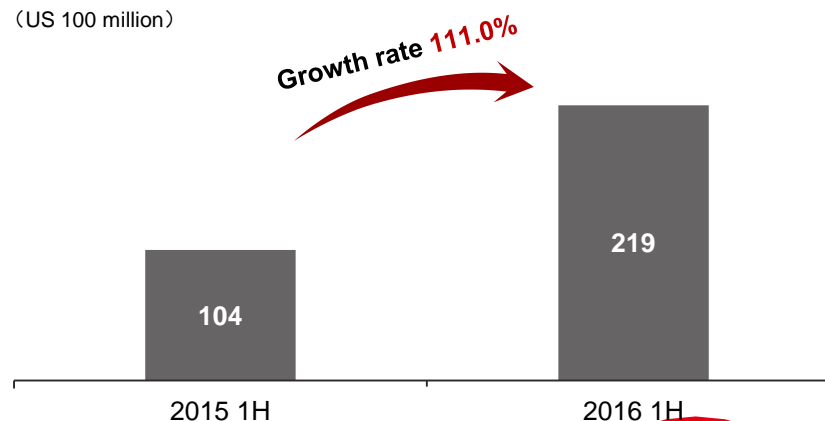
Operating income of corporate banking business



Amount of various types of bonds underwritten



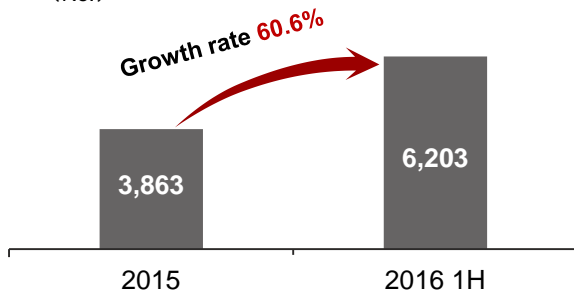
International business settlement



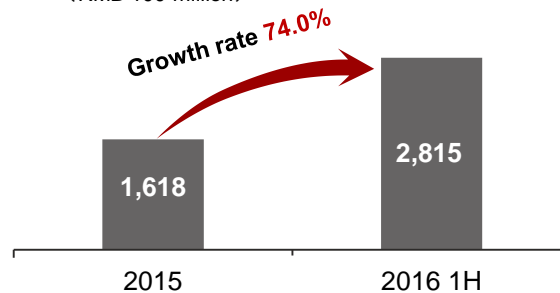
1 Two driving forces of corporate business segment and initial success of innovation of system

Developing a bank that provides mobile services, continuing to promote our “pooled financing” services innovation and “Internet Plus” (互联网+) application

Number of contracted customers of Asset Pool (Bill Pool)
(No.)



Accumulated pooled asset amount
(RMB 100 million)

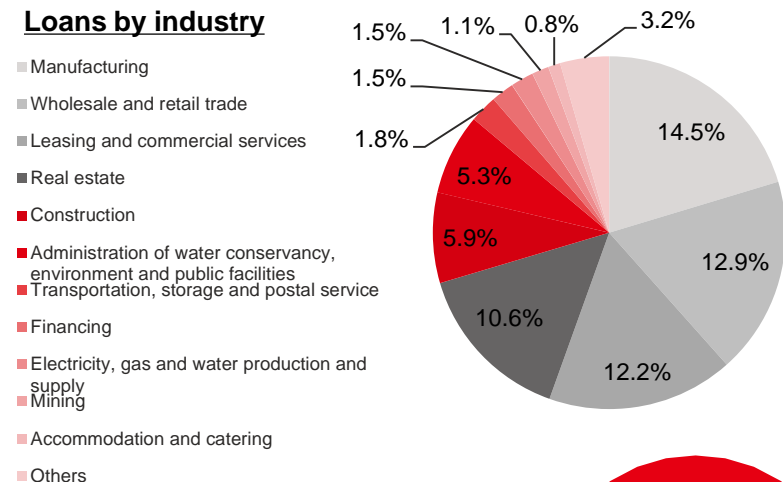


- The functions of bill pool, export pool and asset pool are more established. “Pooled financing” business is developing well and gains new customers for the Bank
- Online loan products and “1+N” credit extending model and “Zhizhen” loan (至臻贷) business are going to become important channels to attract customers and foster client base

Developing a bank that provides full-value-chain services, promoting customer segmentation and optimisation of business structure

- **Developing a bank that provides full-value-chain services:**
 - We actively promoted transformation of traditional financial service model, and expanded corporate financing channels
 - Our product lines and service lines have covered the financial needs of enterprises during each development stage
- **Promoting multi-level client management and establish marketing system:**
 - Implemented active credit extending model for our quality large clients, greatly enhanced the focus and successful rate of general-to-general marketing
 - Explored to implement strategical customer segmentation for marketing and management
- **Promoting optimization of business structure:**
 - Combined the business management of headquarter businesses of government platform and real estate
 - Provided new financial service model for emerging industries and intelligent manufacturing sectors

Loans by industry

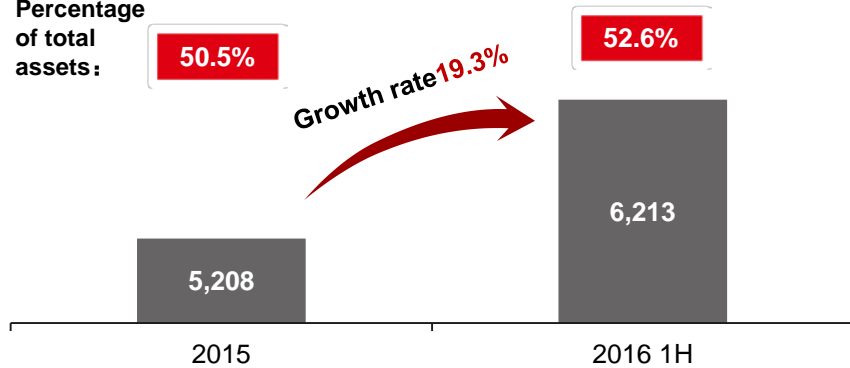


2 Continuous input of Inter-bank financial segment and improved service capacity

Total investments

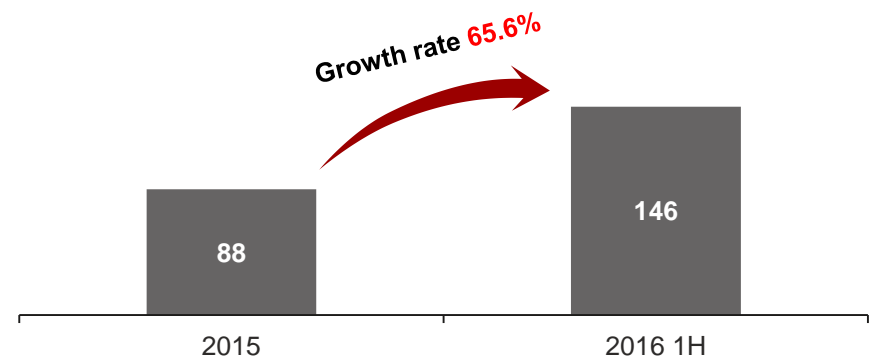
(RMB 100 million)

Percentage of total assets:



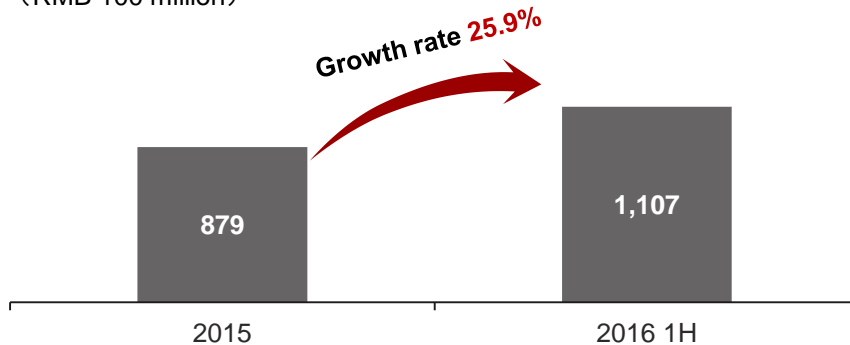
Interest income from investments

(RMB 100 million)



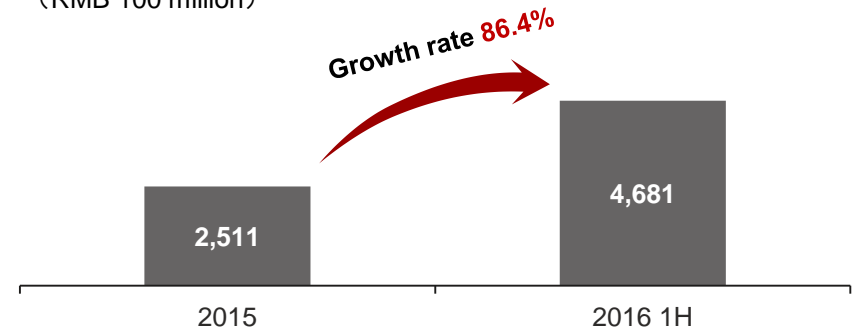
Total bond investments

(RMB 100 million)



Balance of Trust and asset management plans

(RMB 100 million)



2 Continuous input of Inter-bank financial segment and improved service capacity

Financial market business

- Obtained the qualification as a first-class dealer for open market business
- Our proprietary investment and trading business recorded rapid growth, realizing interbank trading volume in local currency of RMB6 trillion
- The business scale of trading on behalf of customers rapidly expanded

Interbank business

- Adjusted the structure of interbank assets and raised the weight of investment assets with high-yield held.
- Enhanced channel building and client management. Two-way line of credit grew

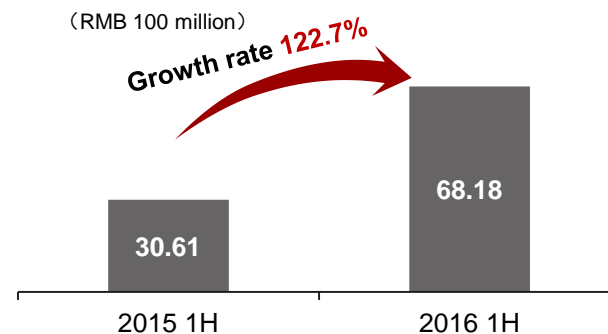
Businesses in capital markets

- Explored businesses in various capital markets and innovated the business mode of the collaboration of investment and lending
- Provided integrated financial services to over a hundred listed companies, new economic entities and local industry funds

Asset Management Business

- Selected as the vice president of the Wealth Management Professional Committee of China Banking Association.
- The balance of our wealth management products amounted to RMB242.7 billion, representing an increase of 13.4% as compared to that at the beginning of the period

Operating income from Inter-bank financial segment



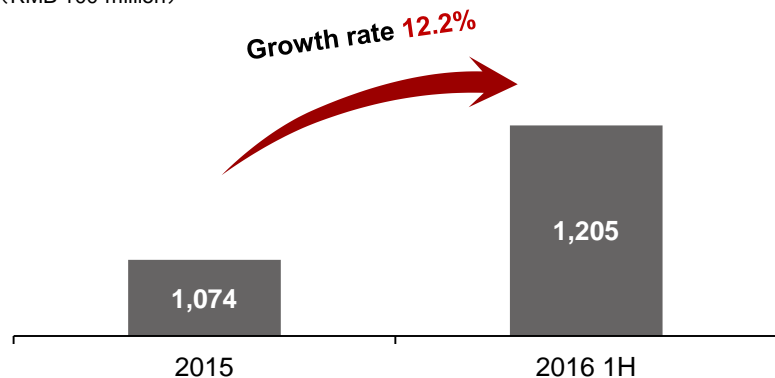
Asset Custodian Business

- Strived to increase business channels, optimized operation process of custodian business
- The balance of assets under custody amounted to RMB599.5 billion, representing an increase of 94.12% as compared to that at the beginning of the period.

3 Growth in small enterprise business accelerated and CZBANK 浙商银行 customized bank services upgraded

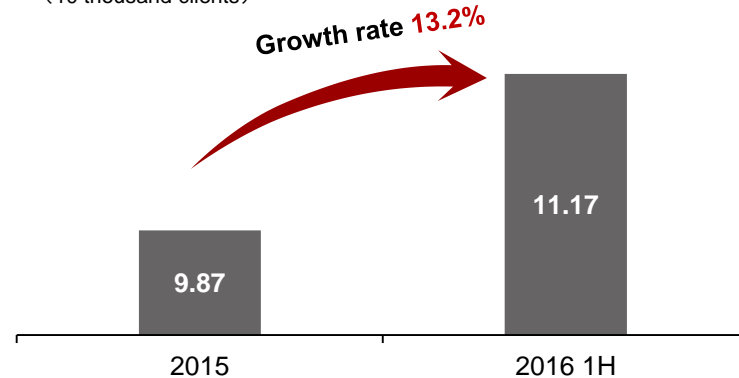
Loan balance (international) of small and micro enterprises (including individual business owners)

(RMB 100 million)



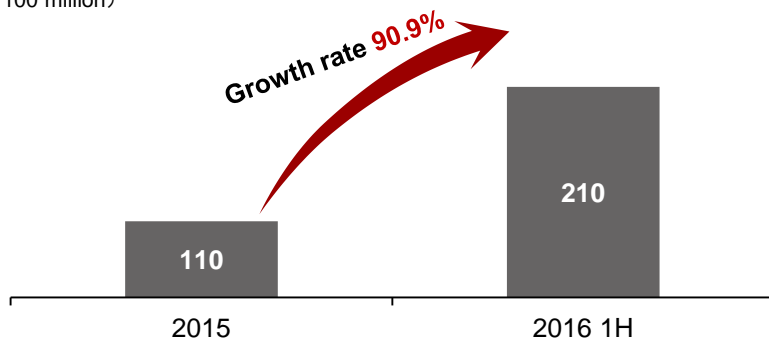
Number of small and micro enterprise customers served

(10 thousand clients)



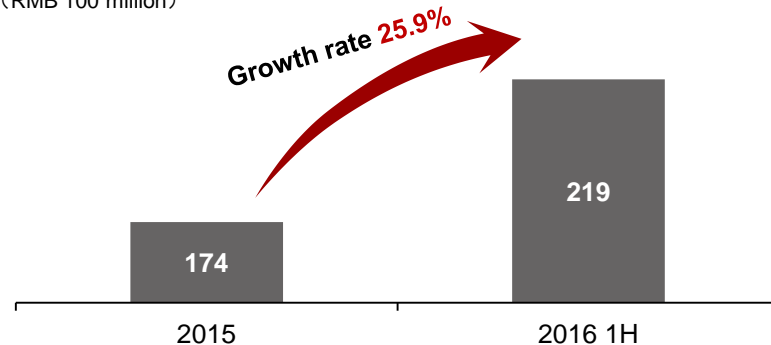
Total number of financial bonds issued for small and micro enterprises

(RMB 100 million)



Loan balance of customers from emerging industries

(RMB 100 million)



Continuous increase in service capacity

- Launched diversified products and services including “accounts universal” (賬戶通) and “credit universal” (信用通)
- Customized various exclusive financial service products including “residential loans of Small and Micro Enterprise” (小微民宿貸) and “Youth Entrepreneurs loan” (青年創客貸)

Provision of intelligent financial services

- Launched facilitating operations including the positioning of small and micro enterprise customers and household surveys via Internet technology to provide the small and micro enterprise customers with one-stop settlement, financing and investment services
- Cooperated with third party companies in setting up a risk management model via big data, realizing the goal of “flash loan”

Ever-expanding customer base

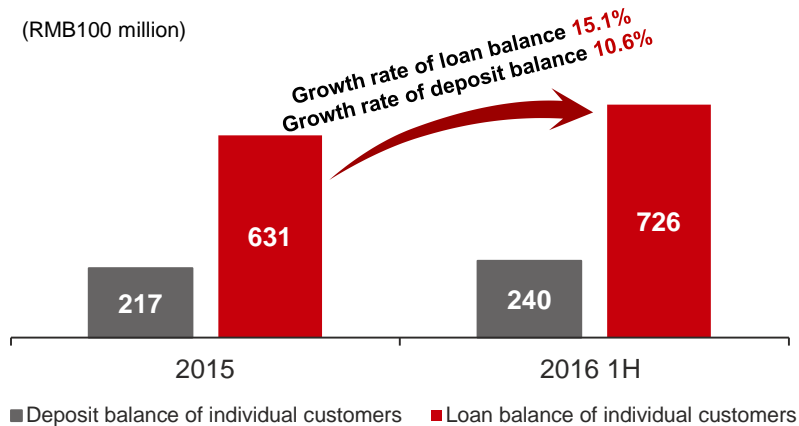
- Reinforced support for the undertaking of high-end personnel
- The robust development of new technologies and consumption upgrading has driven the continuous growth in our customer base in emerging industries
- Promoted the business of “two rights” mortgage loans in rural areas

Development through multi-channel cooperation

- Cooperated with Internet companies in conducting the business of “assistance loan” with an aim to expand the sources of customers and enhance service efficiency
- Reinforced “bank-tax interaction”, promoted the development of quality customer base and optimized the risk control measures of the small and micro enterprise business

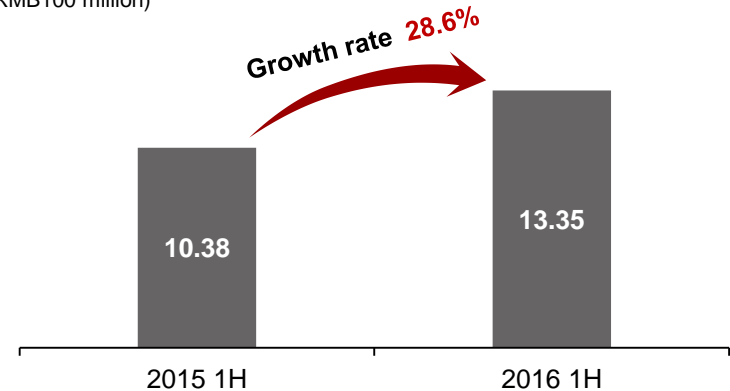
Loans and deposits of individual customers

(RMB100 million)



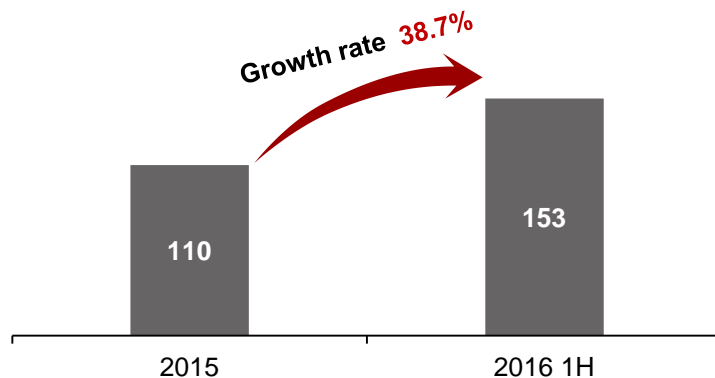
Operating income from personal business

(RMB100 million)



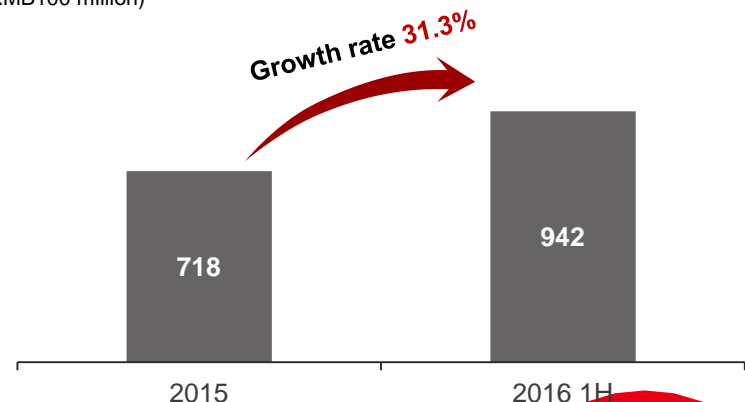
Number of effective individual customers

(10 thousand households)



Individual financial assets balance

(RMB100 million)



4 Emerging to be a wealth management bank with continuous innovations on personal business

Strengthen "Internet plus" and innovation

Constantly improved channel products, created Internet-based personal financial products on continuous innovation, and launched a new version of mobile banking and a one-stop investment and wealth management platform "individual finance market (个人财市场)"



Mobile banking 2.0 + finance market release conference

The first individual pooled credit financing product in the industry "Zengjin Wealth Pool (增金财富池)" obtained the "Award for Best Innovation Program in China's Financial Industry in 2016 (2016年度中国金融行业最佳创新项目奖)" thanks to the Bank's leading thought of engaging in Internet finance and strong scientific and technological base



Improve individual finance service capacity on an ongoing basis

Vigorously developed featured product Zengjinbao (增金宝) (recognized as the "Best Deposit Product" by Aisan Banker in 2016), and continuously launched featured personal financial products to expand the basic customer base

Individual featured deposit product



Demand deposit product with time earning



Gold ETF investment fund product



Build featured credit card brand

Issued the crowd-funding series credit card "Visa Card with Crowd-funding Dreams (众筹梦想Visa卡)", with more than 500,000 credit cards issued in total



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Clear risk management measures and objectives

Risk management measures

- Implement prudent and steady risk management strategies
- Based on Basel II and III, improve the risk management organization structure and risk management system and mechanism
- Optimize risk management structure and function
- Strengthen vertical management model and implement risk monitoring officer dispatch system
- Set up an ad hoc risk control department for the business line of the head office
- Improve various risk management systems
- Work out relevant risk management systems for various risks such as credit risk, market risk, liquidity risk, operational risk, information technology risk, compliance risk and reputational risk
- Establish an examination and approval process for credit business under which rights and responsibilities are clearly defined
- The credit review department of the head office sets up an industry/a product centre and regional review centre to conduct professional examination and approval for credit business of highly professional companies such as property companies and government financing platforms
- Enhance the management of risk data and the building of information technology
- Strengthen the management in standardizing risk data, establish a unified risk data market for the banking industry, support in-depth applications of risk data
- Set up a risk monitoring platform to show the major risks faced by the industry, in order to provide professional and effective risk monitoring analysis

Risk management objectives

Conduct effective risk management to improve risk premium and reduce asset loss

Improve the organizational structure of risk management, and realize rational allocation of risk management departments and personnel

Improve risk management systems and policies, and optimize various risk management related mechanisms

Improve risk management tools and methods, and establish an internal credit risk rating system

Make more efforts to establish the risk management system, and build a unified risk analysis system and data platform for the whole bank

A prudent and standard risk management system

- Adopt a characteristic risk monitoring officer dispatch system, i.e. the head office dispatches to the branches a risk monitoring officer who is independent of the destination branch, reports potential risk events to the head office and may veto credit extension applications to the destination branch with one vote
- Establish a professional risk management team, such as setting up a financial market risk control department and a small business risk control department under the small business credit center
- Adopt different risk management strategies for different industries according to their respective risk characteristics
- Respective branches dispatch to the sub-branches an accounting (operating) officer who reports directly to the branches, so as to effectively control operational and moral risks in various outlets

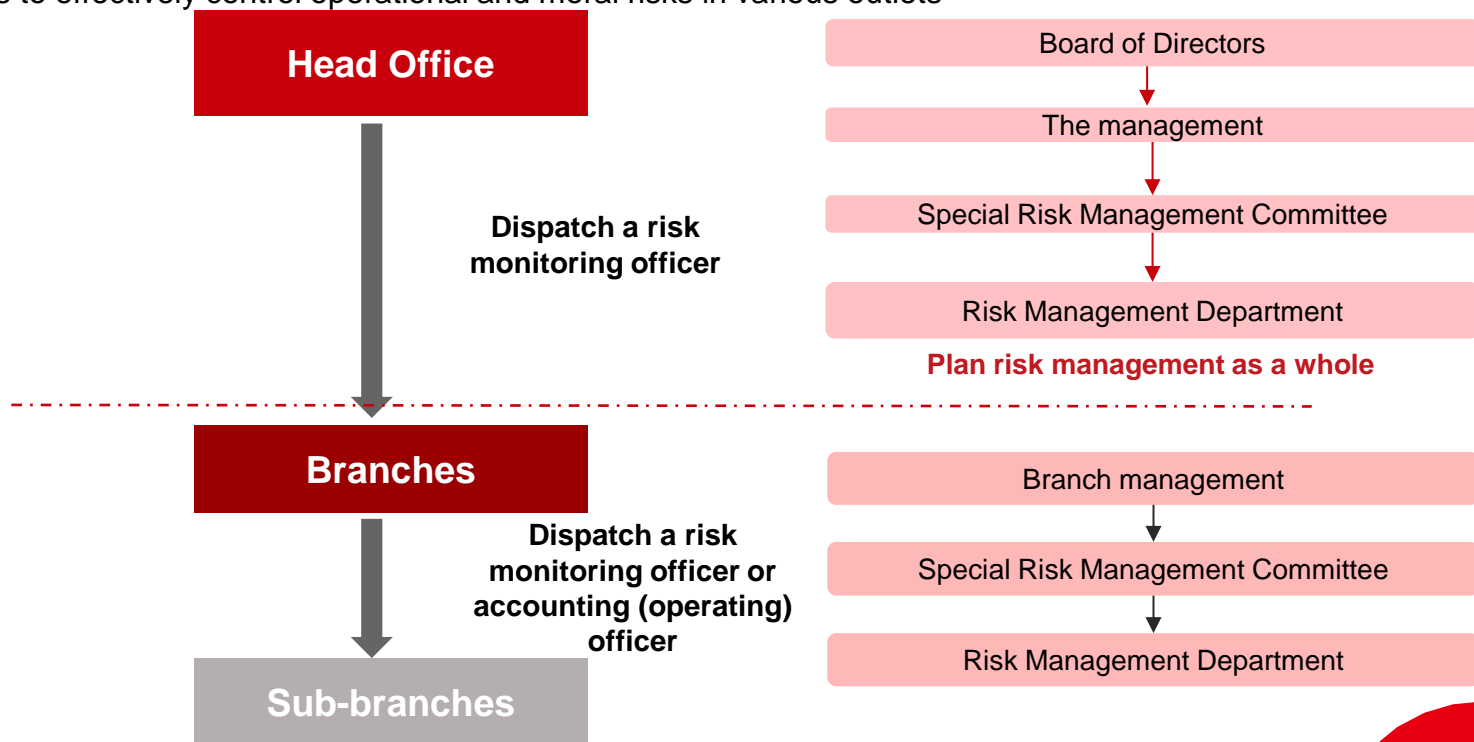


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5. **Outlook**

1

Focus on cultivating basic customer base

- Strive to be customers' leading bank and focus on supporting the real economy
- Accelerate layer management of customers and intensify strategic customer marketing
- Explore marketing mechanisms for emerging industries and promote cultivation of basic customer bases in emerging industries

2

Enrich product and service systems

- Focus on customers and build a comprehensive customer service & product system to improve the customer experience
- Actively develop innovative products, service and management modes
- Focus on providing liquidity services and full value services, and establish a new bank-enterprise cooperative relationship

3

Deepen comprehensive risk management

- Optimize the risk management framework and create a comprehensive risk management system complying with all asset management strategy
- Strengthen the management of various risks to ensure sustained and healthy development of the business
- Speed up the pace of implementing new capital accord and effectively enhance the risk management level

4

Promote the supporting and leading role of science and technology

- Vigorously promote the construction of "Three Pools", "Three Platforms", and other information systems and infrastructure
- Integrate marketing management, business management and risk management, and build a cross-line customer management system for the bank
- Promote the construction of "Two Locations and Three Centers" to improve the service capability of information technology infrastructure in the future

Q&A Session

Thank You