

2017
INTERIM REPORT



中国光大银行
CHINA EVERBRIGHT BANK

China Everbright Bank Company Limited

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

Stock Code : 6818

 **Bank**





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Important Notice and Definition

I. Important Notice

- i. The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this report.
- ii. The Thirteenth Meeting of the Seventh Session of the Board of Directors of the Bank was convened on 25 August, 2017, at which the 2017 Interim Report of the Bank was considered and approved. 15 out of 15 Directors attended the meeting in person. Non-executive Director Mr. Zhang Shude and Independent Non-executive Director Mr. Xu Hongcai were authorized in writing by Non-executive Director Mr. Zhao Wei and Independent Non-executive Director Mr. Feng Lun respectively, who were not able to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his behalf. 7 supervisors were present at the meeting as non-voting attendees.
- iii. The financial statements of the Bank for the first half of 2017 were prepared in accordance with the PRC Generally Accepted Accounting Principles (“PRC GAAP”) and the International Financial Reporting Standards (“IFRSs”) and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively.
- iv. Mr. Tang Shuangning, Chairman of the Board of Directors, Mr. Zhang Jinliang, President and Mr. Xie Rong, Independent Non-executive Director hereby warrant the authenticity, accuracy and completeness of the financial statements in this report.
- v. Unless otherwise stated, all monetary sums stated in this report are expressed in Renminbi/RMB.
- vi. The Bank will not implement any profit distribution or capitalization of capital reserves for the first half of 2017.
- vii. Forward-looking statements such as future plans of the Bank mentioned in this report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.
- viii. The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to the “Discussion and Analysis of Operations” for details.
- ix. In this report, “We/we”, “our Company”, “the Company”, “the Bank”, “Whole Bank” and “China Everbright Bank” all refer to China Everbright Bank Company Limited, and “the Group” refers to China Everbright Bank Company Limited and its subsidiaries.

II. Definitions

- i. In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Ministry of Finance	:	Ministry of Finance of the People's Republic of China
Central Bank	:	The People's Bank of China
CBRC	:	China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
Everbright Group	:	China Everbright Group Limited
SSE	:	Shanghai Stock Exchange
HKSE	:	The Stock Exchange of Hong Kong Limited

- ii. The terms in this report are general concepts adopted in the banking industry. For certain special terms used in connection with products of the Bank which may cause difficulty of investors in understanding their technical meanings, please refer to the 2016 Annual Report of the Bank.

Corporate Information

I. Name of the Bank

Registered Chinese Company Name: 中國光大銀行股份有限公司 (Abbreviation: 中國光大銀行 or 光大銀行)
 Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED
 (Abbreviation: CEB BANK)

II. Relevant Persons

Legal Representative: Tang Shuangning
 Authorized Representatives: Zhang Jinliang, Lu Hong
 Secretary to the Board of Directors: Lu Hong
 Securities Affairs Representative: Li Jiayan
 Assistant to Company Secretary: Lee Mei Yi

III. Contacts

Contact Address: China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing
 Postal code: 100033
 Tel: 010-63636363
 Fax: 010-63636713
 Email: IR@cebbank.com
 Investor hotline: 010-63636388

IV. Corporate Information

Registered and Office Address: China Everbright Center, No. 25 and 25 A Taipingqiao Avenue,
 Xicheng District, Beijing
 United Social Credit Code: 91110000100011743X
 Code of financial authority: B0007H111000001

V. Principal Place of Business in Hong Kong

CEB Hong Kong Branch: 30/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong

VI. Newspaper and Website Designated for Information Disclosure

Mainland China: China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
 Websites designated by the CSRC for publication of A share interim report:
 SSE's website: www.sse.com.cn
 Bank's website: www.cebbank.com
 Websites designated by HKSE for publication of H share interim report:
 HKSE's website: www.hkex.com.hk
 Bank's website: www.cebbank.com
 Copies of interim report are available at: Office of the Board of Directors of the Bank, SSE

VII. Stock Exchanges for Listing of Shares

A share: Shanghai Stock Exchange (SSE)

Abbreviated name of Ordinary Shares: Everbright Bank; Stock code of Ordinary Shares: 601818

Abbreviated name of Preference Shares: 光大優1; 光大優2;

Stock code of Preference Shares: 360013, 360022 (SSE Comprehensive Business Platform)

H share: The Stock Exchange of Hong Kong Limited (HKSE)

Abbreviated name: CEB Bank; Stock code: 6818

VIII. Auditors during the Reporting Period

Domestic Auditor: Ernst & Young Hua Ming LLP

Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing

Certified Public Accountants for Signature: Gu Jun, Leung Shing Kit

Overseas Auditor: Ernst & Young

Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

IX. Legal Advisors of the Board of Directors during the Reporting Period

A Share Legal Advisor: Jun He Law Offices

H Share Legal Advisor: Herbert Smith Freehills

X. Share Depository

A Share Ordinary Shares and Preference Shares Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited

Office Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New District, Shanghai

H Share Registrar: Computershare Hong Kong Investor Services Limited

Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Summary of Accounting Data and Financial Indicators

I. Key Financial Data and Indicators

Item	January – June, 2017	January – June, 2016	Change (%)	January – June, 2015
Operating performance (RMB million)				
Net interest income	30,383	32,625	-6.87	32,105
Net fee and commission income	15,992	13,898	15.07	13,558
Operating income	46,385	47,081	-1.48	45,587
Operating expenses	(14,351)	(15,413)	-6.89	(15,710)
Impairment losses on assets	(10,030)	(9,956)	0.74	(8,387)
Profit before tax	22,004	21,712	1.34	21,490
Net profit attributable to equity shareholders of the Bank	16,939	16,439	3.04	16,241
Per Share (in RMB)				
Basic earnings per share ¹	0.34	0.33	3.03	0.35
Diluted earnings per share ²	0.32	0.33	-3.03	0.35
Item	30 June 2017	31 December 2016	Change (%)	31 December 2015
Net assets per share attributable to equity shareholders of the Bank ³	5.05	4.72	6.99	4.36
Scale indicators (RMB million)				
Total assets	4,033,546	4,020,042	0.34	3,167,710
Total loans and advances to customers	1,964,448	1,795,278	9.42	1,513,543
Provision for impairment of loans	47,267	43,634	8.33	38,119
Total liabilities	3,767,371	3,768,974	-0.04	2,943,663
Balance of deposits from customers	2,271,303	2,120,887	7.09	1,993,843
Total shareholders' equity	266,175	251,068	6.02	224,047
Net assets attributable to equity shareholders of the Bank	265,532	250,455	6.02	223,493
Share capital	46,679	46,679	-	46,679

Item	January – June, 2017	January – June, 2016	Change (%)	January – June, 2015
Profitability indicators (%)				
Return on average total assets	0.84	0.95	-0.11 percentage point	1.13
Return on weighted average net assets ⁴	13.76	14.55	-0.79 percentage point	17.30
Net interest spread	1.32	1.68	-0.36 percentage point	2.03
Net interest margin	1.52	1.88	-0.36 percentage point	2.27
Proportion of fee and commission income in operating income	34.48	29.52	+4.96 percentage points	29.74
Cost-to-income ratio	29.77	27.49	+2.28 percentage points	26.69
Item	30 June 2017	31 December 2016	Change (%)	31 December 2015
Asset quality indicators (%)				
Non-performing loan ratio	1.58	1.60	-0.02 percentage point	1.61
Provision coverage ratio	152.17	152.02	+0.15 percentage point	156.39
Provision-to-loan ratio	2.41	2.43	-0.02 percentage point	2.52

Notes:

1. Basic earnings per share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank=net profit attributable to equity shareholders of the Bank – dividends of the preference shares declared during the period.
2. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).
3. Net assets per share attributable to equity shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instrument)/total number of ordinary shares at the end of the period.
4. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank, listed in an annualized form.

The above figures were calculated according to the *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision)* issued by the CSRC and the *Interpretation of Accounting Standards for Business Enterprises (No.7)* of the Ministry of Finance.

The Bank declared the first dividends of the preference shares of RMB1,060 million (before tax) on 16 June 2017.

Summary of Accounting Data and Financial Indicators

II. Supplementary Financial Indicators

Unit: %

Item		Standard value	30 June 2017	31 December 2016	31 December 2015
Liquidity ratio	RMB	≥25	52.39	63.18	54.90
	Foreign currency	≥25	82.34	78.81	98.87
Loan exposure to largest single customer ratio		≤10	2.56	2.37	2.38
Loan exposure to top ten customers ratio		≤50	13.96	14.62	11.86

Note: The above indicators were calculated on non-consolidation basis.

III. Capital Composition and Changes

The capital adequacy ratio (CAR) indicators calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (released by the CBRC on 7 June 2012) are as follows:

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
1. Net capital base	332,146	324,019	287,880	280,783
1.1 Common equity tier-1 capital	236,069	233,340	221,001	218,511
1.2 Common equity tier-1 capital deductions	(2,087)	(6,329)	(2,125)	(5,488)
1.3 Net common equity tier-1 capital	233,982	227,011	218,876	213,023
1.4 Additional tier-1 capital	30,012	29,947	29,997	29,947
1.5 Additional tier-1 capital deductions	–	–	–	–
1.6 Net Tier-1 capital	263,994	256,958	248,873	242,970
1.7 Tier-2 capital	68,152	67,061	39,007	37,813
1.8 Tier-2 capital deductions	–	–	–	–
2. Credit risk-weighted assets	2,625,256	2,568,149	2,490,988	2,435,979
3. Market risk-weighted assets	10,101	10,371	7,757	7,079
4. Operational risk-weighted assets	166,292	164,066	166,292	164,066
5. Total risk-weighted assets	2,801,649	2,742,586	2,665,037	2,607,124
6. Common equity tier-1 CAR	8.35	8.28	8.21	8.17
7. Tier-1 CAR	9.42	9.37	9.34	9.31
8. CAR	11.86	11.81	10.80	10.77

Notes:

- All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Capital Rules for Commercial Banks (Provisional)* shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Jiangsu Huai'an Everbright Village Bank Co., Ltd. and CEB International Investment Co., Ltd.
- Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

IV. Leverage Ratio

As at the end of the reporting period, the leverage ratio of the Group calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBRC stood at 5.69%, up by 0.25 percentage point over the end of 2016. Please refer to “Unaudited Supplementary Financial Information” for more details.

V. Liquidity Coverage Ratio

Please refer to “Unaudited Supplementary Financial Information” for more details.

Business Overview of the Bank

I. Review of Main Work of the Bank during the Reporting Period

(I) The Bank achieved a steady business growth, and continued optimizing the asset-liability structure

Adapting itself to the new policies and changes in market environment, the Bank developed reasonable plans for business growth with a view to stabilizing the gross assets. At the same time, it worked hard to adjust the business structure by scaling down the interbank assets and liabilities proactively. Additionally, it developed the basic deposit and loan business with concrete efforts as a means to serve the real economy better.

(II) The Bank centered around beneficial result, and introduced more sources of income with various measures

Committed to increasing income and reducing cost, the Bank managed to enhance its comprehensive profitability. Firstly, it strengthened the interest spread management with a view to generating more income from assets and controlling cost incurred by liabilities. Secondly, with more credit resources diverted to the businesses with higher comprehensive return, the Bank made its business growth more benefit-oriented. Thirdly, it optimized the income structure by continuing to enhance the proportion of the income from the fee-based business.

(III) The Bank maintained its high-handed posture to risk control and held the bottom line of risk management firmly

Specifically, the Bank exercised more intensified control over credit risk and newly-increased non-performing assets, and worked hard to diffuse the existing risk. As a result of these efforts, the asset quality remained stable overall. At the same time, it optimized the liquidity risk governance structure, stepped up the unified management and limit-based evaluation, and improved the performance of liquidity indicators. In order to intensify the monitoring over market risk, the Bank took securities investments, interbank business, wealth management, sales services on an agent basis, and internet finance as top priorities for risk management to strictly protect itself from the impact of external risk. Additionally, with a series of campaigns against “Three Arbitrages”, “Three Breaches” and “Four Improper Actions” to crack down misconducts that disrupted the normal market order, the Bank continued to strengthen the internal control and compliance management at the Bank.

(IV) The Bank continued to reinforce the management foundation so as to safeguard stable and robust operation

For this purpose, the Bank underpinned its business and service management by rechecking and optimizing the operation and service flows. Furthermore, it managed to deal with operational affairs more efficiently, deliver better customer experiences, and put operational cost under control. At the same time, driven by science and technology, the Bank continued to develop core systems, business platforms and major projects, which were designed to provide business innovation and growth with a much-needed shot in the arm. Additionally, it advanced the reform on human resources, introduced a unified position hierarchy system for employees and a performance-based points mechanism for promotion.

II. Analysis on Core Competitiveness of the Bank

Everbright Group's full range of financial licenses. As a key state-owned enterprise under the management of the central government as well as the major shareholder of the Bank, China Everbright Group owns a full range of financial licenses and has set up a platform for the multi-business linkage cooperation of the Bank and other companies so as to provide customers with cross-market comprehensive financial solutions.

Unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine and Innovating Lifestyle" for many years, the Bank has stepped up its brand building efforts to create the "Sunshine" brand series. Thanks to these efforts, it develops a favorable image in the market, enjoys fairly great reputation, and demonstrates considerable brand competitiveness.

Leading roles in some businesses sectors. As the first bank to launch wealth management products in China, the Bank has obtained noted comparative advantages in wealth management and asset management business. Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. Its e-banking business has focused on building an open service system based on an open platform, which thus has developed into an industry leading business model.

Full-fledged system for comprehensive risk management. Based on the Basel III framework, the Bank has preliminarily established a comprehensive risk management system which covers all substantial risks. In the meantime, it has continued building up the technical platform for economic capital management so as to improve its risk management capabilities with quantitative instruments.

Advanced IT management and independent R&D capabilities. As the first Chinese commercial bank to realize the "data centralization", the Bank has led the industry in terms of safe operation and maintenance as well as technological support capabilities. In recent years, it has also set up a platform to enhance its independent R&D capability.

Discussion and Analysis of Operations

I. Overall Operations of the Bank

(I) Assets and liabilities kept running steadily

As at the end of the reporting period, the total assets of the Group posted RMB4,033,546 million, representing an increase of RMB13,504 million or 0.34% over the end of the previous year. Of these, the balance of loans stood at RMB1,964,448 million, representing an increase of RMB169,170 million or 9.42% over the end of the previous year. The total liabilities registered RMB3,767,371 million, representing a decrease of RMB1,603 million or 0.04% over the end of the previous year. Of these, the balance of deposits reported RMB2,271,303 million, up by RMB150,416 million or 7.09% over the end of the previous year.

(II) Profitability recorded stable growth

During the reporting period, the operating income of the Group registered RMB46,385 million, representing a year-on-year decrease of RMB696 million or 1.48% as compared with the previous year. Its operating expenses stood at RMB14,351 million, down by RMB1,062 million or 6.89% year on year. Profit before tax reached RMB22,004 million, a year-on-year increase of RMB292 million or 1.34%. Net profit was RMB16,972 million, up by RMB504 million or 3.06% year on year.

(III) Progress made in structural adjustment

During the reporting period, the Group continued adjusting its asset structure by following the principle of “taking protective or suppressive measures in line with actual conditions”. Firstly, acting on the financial de-leverage policy, it scaled down the interbank business. Secondly, it made more efforts to propel banking operation back towards its fundamental target, and strived to develop the fundamental deposit and loan business. Thirdly, the Group consolidated fee-based business, and developed credit card, agency service, e-banking and custody businesses at an accelerated pace, leading to diversified sources of income step by step.

(IV) Overall risk control achieved

As at the end of the reporting period, the Group’s non-performing loans (NPLs) amounted to RMB31,061 million, representing an increase of RMB2,359 million over the end of the previous year. NPL ratio reported 1.58%, down by 0.02 percentage point as compared with the end of the previous year. Credit provision coverage ratio reached 152.17%, up by 0.15 percentage point over the end of the previous year.

(V) Capital adequacy ratio (CAR) went up steadily

As at the end of the reporting period, the Group’s CAR reached 11.86%, up by 1.06 percentage points over the end of the previous year. Tier-1 CAR stood at 9.42%, representing an increase of 0.08 percentage point over the end of the previous year. Common equity tier-1 CAR reported 8.35%, up by 0.14 percentage point as compared with the end of the previous year.

II. Income Statement Analysis

(I) Changes in items of Income Statement

Unit: RMB million

Item	January – June, 2017	January – June, 2016	Change
Net interest income	30,383	32,625	(2,242)
Net fee and commission income	15,992	13,898	2,094
Net trading (losses)/gains	(1,330)	546	(1,876)
Net losses arising from investment securities	(76)	(77)	1
Net foreign exchange gains/(losses)	1,140	(174)	1,314
Other net operating income	276	263	13
Operating expenses	14,351	15,413	(1,062)
Impairment losses on assets	10,030	9,956	74
Profit before tax	22,004	21,712	292
Income tax	5,032	5,244	(212)
Net profit	16,972	16,468	504
Net profit attributable to equity shareholders of the Bank	16,939	16,439	500

(II) Operating income

During the reporting period, the Group incurred an operating income of RMB46,385 million, a decrease of RMB696 million or 1.48% year on year. The proportion of net fee and commission income in the total operating income was 34.48%, representing a year-on-year increase of 4.96 percentage points. The proportion of net interest income reported 65.50%, down by 3.80 percentage points year on year.

The following table sets out the composition of the Group's operating income and the proportions of each parts:

Unit: %

Item	January – June, 2017	January – June, 2016
Net interest income	65.50	69.30
Net fee and commission income	34.48	29.52
Other income	0.02	1.18
Total Operating income	100.00	100.00

Discussion and Analysis of Operations

(III) Net interest income

During the reporting period, the Group's net interest income stood at RMB30,383 million, representing a year-on-year decrease of RMB2,242 million or 6.87%. Such a decrease was mainly attributable to the declining net interest margin.

The Group's net interest spread reported 1.32%, down by 36 basis points year on year. Its net interest margin stood at 1.52%, representing a year-on-year decrease of 36 basis points.

Unit: RMB million, %

Item	January – June, 2017			January – June, 2016		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
Interest-earning assets						
Loans and advances	1,901,521	41,644	4.42	1,641,799	38,587	4.70
Finance lease receivables	59,454	1,326	4.50	45,150	892	3.95
Investments	1,340,057	26,883	4.05	1,020,862	21,304	4.17
Deposits with the central bank	358,869	2,627	1.48	349,651	2,600	1.49
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	384,108	6,219	3.26	406,523	6,227	3.06
Total interest-earning assets	4,044,009	78,699	3.92	3,463,985	69,610	4.02
Interest income		78,699			69,610	
Interest-bearing liabilities						
Deposits from customers	2,169,561	20,216	1.88	2,090,200	21,649	2.07
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	1,047,335	18,118	3.49	788,981	10,554	2.68
Debt securities issued	529,118	9,982	3.80	282,143	4,782	3.39
Total interest-bearing liabilities	3,746,014	48,316	2.60	3,161,324	36,985	2.34
Interest expenses		48,316			36,985	
Net interest income		30,383			32,625	
Net interest spread			1.32			1.68
Net interest margin			1.52			1.88

Notes:

1. Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities;
2. Net interest margin is the net interest income divided by the average balance of total interest-earning assets.

The following table sets forth the changes in interest income and interest expense of the Group due to changes in business scale and interest rate:

Unit: RMB million

Item	Volume factor	Interest rate factor	Changes in interest
Loans and advances	5,688	(2,631)	3,057
Finance lease receivables	319	115	434
Investments	6,403	(824)	5,579
Deposits with the central bank	67	(40)	27
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(363)	355	(8)
Interest-earning assets	11,288	(2,199)	9,089
Changes in interest income			9,089
Deposits from customers	739	(2,172)	(1,433)
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	4,469	3,095	7,564
Debt securities issued	4,659	541	5,200
Interest-bearing liabilities	7,541	3,790	11,331
Changes in interest expense			11,331
Net interest income			(2,242)

(IV) Interest income

During the reporting period, the Group yielded an interest income of RMB78,699 million, representing a year-on-year increase of RMB9,089 million or 13.06%. Such an increase was mainly attributed to the growing interest income from investments and loans.

1. Interest income from loans and advances

During the reporting period, the Group generated an interest income of RMB41,644 million from loans and advances, representing a year-on-year increase of RMB3,057 million or 7.92%. Such an increase was mainly due to the year-on-year rise in the average balance of loans and advances.

The following table sets forth the average balance, interest income, and average yield of major types of loans and advances at the Group:

Unit: RMB million, %

Item	January - June, 2017			January - June, 2016		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,154,698	25,702	4.49	1,012,508	24,030	4.75
Personal loans	707,907	15,339	4.37	552,748	12,999	4.70
Discounted bills	38,916	603	3.12	76,543	1,558	4.07
Loans and advances	1,901,521	41,644	4.42	1,641,799	38,587	4.70

Discussion and Analysis of Operations

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB26,883 million, representing a year-on-year increase of RMB5,579 million or 26.19%. Such an increase was mainly due to the expanding investment scale.

3. Interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements totaled RMB6,219 million, representing a year-on-year decrease of RMB8 million or 0.13%.

(V) Interest expense

During the reporting period, the Group's interest expense amounted to RMB48,316 million, representing a year-on-year increase of RMB11,331 million or 30.64%. Such an increase was mainly attributed to the increased interest expense arising from the placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements as well as debt securities issued.

1. Interest expense on deposits from customers

During the reporting period, the Group incurred RMB20,216 million in interest expense on deposits from customers, representing a year-on-year decrease of RMB1,433 million or 6.62%. Such a decrease was mainly due to the dropping average cost of deposits from customers.

The following table sets forth the average balance, interest expense and average cost of major types of deposits from customers at the Group:

Unit: RMB million, %

Item	January - June, 2017			January - June, 2016		
	Average balance	Interest expenses	Average cost	Average balance	Interest expenses	Average cost
Corporate deposits	1,722,297	16,157	1.89	1,623,362	16,672	2.05
Including: Corporate demand deposits	662,148	2,230	0.68	533,593	1,650	0.62
Corporate time deposits	1,060,149	13,927	2.65	1,089,769	15,022	2.76
Personal deposits	447,264	4,059	1.83	466,838	4,977	2.13
Including: Personal demand deposits	161,604	328	0.41	138,825	293	0.42
Personal time deposits	285,660	3,731	2.63	328,013	4,684	2.86
Total deposits from customers	2,169,561	20,216	1.88	2,090,200	21,649	2.07

2. Interest expense on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements

During the reporting period, the Group's interest expense on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB18,118 million, up by RMB7,564 million or 71.67% year on year. Such an increase was mainly attributed to the year-on-year rise in the average cost of placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements.

3. Interest expense on debt securities issued

During the reporting period, the Group's interest expense on debt securities issued totaled RMB9,982 million, representing a year-on-year increase of RMB5,200 million or 108.74%. Such an increase was mainly due to the year-on-year growth of the average balance of debt securities issued.

(VI) Net fee and commission income

During the reporting period, the Group generated RMB15,992 million in net fee and commission income, up by RMB2,094 million or 15.07% year on year. Such an increase was mainly due to the remarkable rise in bank card service fees and agency service fees. Of these, the income from bank card service fees went up by RMB2,986 million or 46.41% year on year, and the income from agency service fees increased by RMB579 million, up by 58.96% year on year.

The following table sets forth the major components of net fee and commission income of the Group:

Item	Unit: RMB million	
	January – June, 2017	January – June, 2016
Fee and commission income	16,948	14,602
Underwriting and advisory fees	903	762
Bank card service fees	9,420	6,434
Settlement and clearing fees	686	541
Wealth management service fees	2,256	3,646
Acceptance and guarantee fees	481	466
Agency services fees	1,561	982
Custody and other fiduciary business fees	964	912
Others	677	859
Fee and commission expense	(956)	(704)
Net fee and commission income	15,992	13,898

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(VII) Other income

During the reporting period, the Group's other income stood at RMB10 million, representing a year-on-year decrease of RMB548 million. Such a decrease was mainly attributed to the fluctuations in fair value and exchange gains/losses.

The following table sets forth the major components of other income:

Item	Unit: RMB million	
	January – June, 2017	January – June, 2016
Net trading (losses)/gains	(1,330)	546
Net losses arising from investment securities	(76)	(77)
Net foreign exchange gains/(losses)	1,140	(174)
Other operating income	276	263
Total	10	558

(VIII) Operating expense

During the reporting period, the Group incurred an operating expense of RMB14,351 million, a decrease of RMB1,062 million or 6.89% year on year. Cost-to-income ratio stood at 29.77%, up by 2.28 percentage points year on year. The staff costs recorded RMB8,332 million, an increase of RMB337 million or 4.22% year on year.

The following table sets forth the major components of operating expense:

Item	Unit: RMB million	
	January – June, 2017	January – June, 2016
Staff costs	8,332	7,995
Premises and equipment expenses	2,370	2,318
Tax and surcharges	543	2,472
Others	3,106	2,628
Total operation expenses	14,351	15,413

(IX) Impairment losses on assets

During the reporting period, the Group sustained the impairment losses on assets of RMB10,030 million, representing a year-on-year increase of RMB74 million or 0.74%.

The following table sets forth the major components of impairment losses on assets:

Unit: RMB million

Item	January – June, 2017	January – June, 2016
Impairment losses on loans and advances to customers	9,305	9,330
Impairment losses on finance lease receivables	59	332
Impairment losses on held-to-maturity investments	(10)	102
Impairment losses on available-for-sale financial assets	190	34
Impairment losses on investment classified as receivables	361	–
Others	125	158
Total impairment losses on assets	10,030	9,956

(X) Income tax

During the reporting period, the Group incurred an income tax of RMB5,032 million, a decrease of RMB212 million or 4.04% year on year.

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III. Balance Sheet Analysis

(I) Assets

As at the end of the reporting period, the Group's total assets reached RMB4,033,546 million, representing an increase of RMB13,504 million or 0.34% as compared with the end of the previous year. Such an increase was mainly due to the growth of loans and advances, placements with banks and other financial institutions, financial assets held under resale agreements, and other items.

The following table sets forth the composition of total assets of the Group:

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	1,964,448		1,795,278	
Provision for impairment of loans	(47,267)		(43,634)	
Net loans and advances to customers	1,917,181	47.53	1,751,644	43.57
Finance lease receivables	56,392	1.40	55,560	1.38
Deposits with banks and other financial institutions	117,919	2.92	232,630	5.79
Cash and deposits with the central bank	345,530	8.57	381,620	9.49
Investment in securities and other financial assets	1,246,724	30.91	1,323,093	32.91
Placements with banks and other financial institutions, and financial assets held under resale agreements	241,329	5.98	193,305	4.81
Interests receivable	27,028	0.67	25,339	0.63
Fixed assets	14,360	0.36	14,228	0.35
Goodwill	1,281	0.03	1,281	0.03
Deferred income tax assets	6,921	0.17	5,622	0.14
Other assets	58,881	1.46	35,720	0.90
Total assets	4,033,546	100.00	4,020,042	100.00

Unit: RMB million, %

1. Loans and advances

As at the end of the reporting period, the Group's total loans and advances reached RMB1,964,448 million, an increase of RMB169,170 million or 9.42%, as compared with the end of the previous year. The proportion of net loans and advances to the total assets was 47.53%, representing an increase of 3.96 percentage points as compared with the end of the previous year. This increase in proportion of net loans and advances is mainly due to the fact that the total assets maintained steady while the fundamental loan business saw stable development.

The following table sets forth the major components of the Group's loans and advances:

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,188,851	60.52	1,075,974	59.93
Personal loans	748,404	38.10	663,131	36.94
Discounted bills	27,193	1.38	56,173	3.13
Gross loans and advances	1,964,448	100.00	1,795,278	100.00

Unit: RMB million, %

2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investment in securities and other financial assets totaled RMB1,246,724 million, a decrease of RMB76,369 million as compared with the end of the previous year, accounting for 30.91% of total assets, and representing a drop of 2.00 percentage points as compared with the end of the previous year.

The following table sets forth the major components of the Group's investment in securities and other financial assets:

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	20,804	1.67	7,834	0.59
Positive fair value of derivatives	2,142	0.17	4,950	0.37
Available-for-sale financial assets	356,871	28.62	425,131	32.13
Held-to-maturity investments	352,405	28.27	257,500	19.46
Debt securities classified as receivables	514,502	41.27	627,678	47.45
Total investment in securities and other financial assets	1,246,724	100.00	1,323,093	100.00

3. Types and amounts of financial bonds held

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	967	0.78	1,861	1.63
Available-for-sale financial assets	28,693	23.14	54,146	47.53
Held-to-maturity investments	94,322	76.08	57,920	50.84
Total	123,982	100.00	113,927	100.00

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bonds	Nominal value	Annual interest rate	Maturity date	Provision for impairment losses
Bond 1	4,500	4.01	2037-01-09	—
Bond 2	4,430	3.83	2024-01-06	—
Bond 3	3,140	3.80	2036-01-25	—
Bond 4	2,790	3.43	2021-12-08	—
Bond 5	2,720	3.85	2024-01-09	—
Bond 6	2,500	4.20	2020-04-17	—
Bond 7	2,340	3.95	2031-02-26	—
Bond 8	2,000	4.20	2020-05-24	—
Bond 9	1,500	4.00	2020-03-09	—
Bond 10	1,467	Interest rate of loans with a term of above five years-0.60	2027-04-26	—

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5. Goodwill

The original value of the Group's goodwill stood at RMB6,019 million. As at the end of the reporting period, the provision for impairment losses on goodwill reported RMB4,738 million, and the carrying value of goodwill registered RMB1,281 million, which was the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing or mortgage or pledge of the Bank's principal assets.

(II) Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB3,767,371 million, a decrease of RMB1,603 million or 0.04% as compared with the end of the previous year. Such a decrease was mainly due to the reduction of deposits from banks and other financial institutions.

The following table sets forth the components of the Group's total liabilities:

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Due to the central bank	217,500	5.77	187,000	4.96
Deposits from customers	2,271,303	60.29	2,120,887	56.27
Deposits from banks and other financial institutions	519,366	13.79	830,354	22.03
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	135,860	3.61	136,696	3.63
Negative fair value of derivatives	2,815	0.07	4,368	0.12
Accrued staff costs	7,909	0.21	7,776	0.21
Taxes payable	4,515	0.12	4,501	0.12
Interests payable	34,274	0.91	33,576	0.89
Debt securities issued	531,006	14.09	412,500	10.94
Other liabilities	42,823	1.14	31,316	0.83
Total liabilities	3,767,371	100.00	3,768,974	100.00

Unit: RMB million, %

Note: Deposits from customers include structured deposits measured at fair value as specified, same hereinafter.

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,271,303 million, representing an increase of RMB150,416 million or 7.09%, as compared with the end of the previous year.

The following table sets forth the components of the Group' deposits from customers:

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Corporate deposits	1,774,749	78.14	1,653,200	77.95
Including: Corporate demand deposits	691,225	30.43	656,760	30.97
Corporate time deposits	1,083,524	47.71	996,440	46.98
Personal deposits	376,580	16.58	359,660	16.96
Including: Personal demand deposits	185,209	8.15	183,856	8.67
Personal time deposits	191,371	8.43	175,804	8.29
Other deposits	119,974	5.28	108,027	5.09
Total deposits from customers	2,271,303	100.00	2,120,887	100.00

(III) Equity of shareholders

As at the end of the reporting period, the equity attributable to equity shareholders of the Bank at the group level totaled RMB265,532 million, representing a net increase of RMB15,077 million or 6.02% as compared with the end of the previous year. Please refer to “Notes to Financial Statements” for more details.

The following table sets forth the composition of the equity attributable to equity shareholders of the Bank at the group level:

Item	Unit: RMB million	
	30 June 2017	31 December 2016
Share capital	46,679	46,679
Other equity instrument	35,108	29,947
Capital reserve	33,365	33,365
Other comprehensive income	(879)	509
Surplus reserve	17,951	17,951
General reserve	51,448	51,447
Retained earnings	81,860	70,557
Total equity attributable to equity shareholders of the Bank	265,532	250,455
Non-controlling interests	643	613
Total equity	266,175	251,068

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(IV) Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB728,383 million, representing an increase of RMB26,266 million as compared with that as at the end of the previous year.

The following table sets forth the composition of Group's credit commitments:

Item	Unit: RMB million	
	30 June 2017	31 December 2016
Loan and credit card commitments	186,283	158,477
Acceptances	374,587	401,420
Letters of guarantees	95,957	81,424
Letters of credit	71,371	60,611
Guarantees	185	185
Total	728,383	702,117

IV. Cash Flow Analysis

The Group's net cash outflows from operating activities amounted to RMB240,099 million. Of these, cash inflows generated from operating activities reported RMB44,243 million; cash outflows arising from changes in operating assets stood at RMB156,058 million; and cash outflows arising from changes in operating liabilities totaled RMB128,284 million.

Net cash inflows from investing activities reached RMB69,945 million, of which cash inflows generated from disposal and redemption of investments reported RMB434,722 million and cash outflows arising from payments on acquisition of investment amounted to RMB363,678 million.

Net cash inflows from financing activities were RMB111,900 million, of which cash inflows generated from the issuance of bonds registered RMB123,667 million.

V. Analysis of Loan Quality

(I) Distribution of loans by industry

During the reporting period, by focusing on the target of economic restructuring, transforming and upgrading, the Bank proactively adjusted its credit portfolio by industry. As a result, the proportion of its loans to the manufacturing and wholesale/retail industries reduced while the loans to livelihood and public utility sectors rose.

The following table sets forth the distribution of Group's loans by industry:

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Manufacturing	243,254	20.46	235,514	21.89
Water, environment and public utility management	198,254	16.68	160,657	14.93
Real estate	148,220	12.47	126,717	11.78
Leasing and commercial services	117,654	9.90	95,554	8.88
Wholesale and retail trade	115,869	9.75	112,165	10.42
Transportation, storage and postal services	93,410	7.86	92,260	8.57
Construction	67,658	5.69	62,480	5.81
Finance	55,111	4.63	51,275	4.77
Production and supply of power, gas and water	41,314	3.47	34,201	3.18
Mining	25,729	2.16	28,473	2.65
Others (note)	82,378	6.93	76,678	7.12
Subtotal of corporate loans	1,188,851	100.00	1,075,974	100.00
Personal loans	748,404		663,131	
Discounted bills	27,193		56,173	
Gross loans and advances	1,964,448		1,795,278	

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education; etc.

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(II) Distribution of loans by region

The distribution of the Group's loans by region remained relatively stable, tending to a well-balanced structure.

The following table sets forth the distribution of Group's loans by region:

Unit: RMB million, %

Region	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	378,705	19.28	352,631	19.64
Pearl River Delta	228,466	11.63	213,533	11.89
Bohai Rim	324,117	16.50	298,715	16.64
Central	334,844	17.05	303,996	16.93
Western	278,979	14.20	260,592	14.52
Northeastern	115,931	5.90	109,300	6.09
Head Office	248,135	12.63	212,336	11.83
Overseas	55,271	2.81	44,175	2.46
Gross loans and advances	1,964,448	100.00	1,795,278	100.00

(III) Types of loan collateral and their proportions

The Group's guaranteed loans, mortgage loans and pledged loans combined accounted for 73.07% of the total, and the remaining unsecured loans were mainly offered to customers with relatively high credit ratings.

The following table sets forth the types of loan guarantee methods and their proportions at the Group:

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Unsecured loans	529,013	26.93	491,329	27.37
Guaranteed loans	457,078	23.27	391,427	21.80
Mortgage loans	744,758	37.91	695,272	38.73
Pledged loans	233,599	11.89	217,250	12.10
Gross loans and advances	1,964,448	100.00	1,795,278	100.00

(IV) Top 10 loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as of 30 June 2017	Proportion to total loans	Proportion to net capital
Borrower A	Manufacturing	8,480	0.43	2.56
Borrower B	Transportation, storage and postal services	5,748	0.29	1.73
Borrower C	Public administration and social organization	4,800	0.25	1.45
Borrower D	Water, environment and public utility management	4,600	0.24	1.38
Borrower E	Real estate	4,530	0.23	1.36
Borrower F	Financial services	3,961	0.20	1.19
Borrower G	Water, environment and public utility management	3,750	0.19	1.13
Borrower H	Wholesale and retail trade	3,622	0.18	1.09
Borrower I	Manufacturing	3,620	0.18	1.09
Borrower J	Water, environment and public utility management	3,250	0.17	0.98
Total amount		46,361	2.36	13.96

Notes:

- The proportion of the balance of loans to net capital is calculated according to the requirements of the CBRC.
- There is no related-party relationship between top ten borrowers and the Bank.

(V) Five-category loan classification

Due to some internal and external factors such as macroeconomic slowdown and structural adjustment, the Group's NPLs increased moderately while its NPL ratio decreased as a result of the continuous expansion of the total loan book. As at the end of the reporting period, the balance of NPLs reported RMB31,061 million, representing an increase of RMB2,359 million as compared with that as at the end of the previous year. The NPL ratio was 1.58%, down by 0.02 percentage point over the end of the previous year.

The following table sets forth the five-category loan classification of the Group:

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Normal	1,868,192	95.10	1,698,723	94.62
Special mention	65,195	3.32	67,853	3.78
Substandard	11,115	0.57	11,367	0.63
Doubtful	14,864	0.75	14,078	0.79
Loss	5,082	0.26	3,257	0.18
Gross loans and advances	1,964,448	100.00	1,795,278	100.00
Performing loans	1,933,387	98.42	1,766,576	98.40
Non-performing loans	31,061	1.58	28,702	1.60

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(VI) Loan migration ratio

Unit: RMB, %

Item	January – June, 2017	2016	2015
Loan migration ratio of normal loans	1.06	3.31	4.27
Loan migration ratio of special mention loans	14.10	26.78	30.33
Loan migration ratio of substandard loans	54.84	62.17	86.57
Loan migration ratio of doubtful loans	20.69	25.66	24.98

(VII) Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Proportion to total loans	Balance	Proportion to total loans
Restructured loans and advances	15,999	0.81	17,380	0.97
Of which: restructured loans and advances to customers overdue more than 90 days	902	0.05	1,240	0.07

2. Overdue loans

Please refer to “Notes to Financial Statements” for details of overdue loans.

(VIII) NPLs by business type

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Corporate loans	22,426	72.20	21,412	74.60
Personal loans	8,635	27.80	7,290	25.40
Discounted bills	–	–	–	–
Total amount of NPLs	31,061	100.00	28,702	100.00

(IX) Distribution of NPLs by region

During the reporting period, the Group's NPLs in Yangtze River Delta and Central regions decreased whereas the NPLs in Pearl River Delta, Bohai Rim and Northeastern increased slightly.

The following table sets out the geographic distribution of the Group's NPLs:

Unit: RMB million, %

Region	June 30, 2017		December 31, 2016	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	5,091	16.39	6,520	22.72
Pearl River Delta	5,377	17.31	4,663	16.25
Bohai Rim	4,820	15.52	3,666	12.77
Central	4,436	14.28	4,654	16.21
Western	4,779	15.39	4,599	16.02
Northeastern	2,457	7.90	1,259	4.39
Head Office	4,093	13.18	3,333	11.61
Overseas	8	0.03	8	0.03
Total amount of NPLs	31,061	100.00	28,702	100.00

(X) Distribution of NPLs by industry

As at the end of the reporting period, the Group's NPLs were mainly concentrated in manufacturing, wholesale and retail trade sectors.

The following table sets out the industry distribution of the Group's NPLs:

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Manufacturing	11,737	37.79	10,310	35.91
Wholesale and retail trade	7,095	22.84	8,178	28.49
Real estate	258	0.83	220	0.77
Transportation, storage and postal services	321	1.03	220	0.77
Leasing and commercial services	71	0.23	77	0.27
Water, environment and public utility management	20	0.06	-	-
Construction	850	2.74	392	1.37
Mining	1,137	3.66	1,177	4.10
Production and supply of power, gas and water	42	0.14	40	0.14
Public administration and social organization	10	0.03	10	0.03
Others (note)	885	2.85	788	2.75
Subtotal of corporate loans	22,426	72.20	21,412	74.60
Personal loans	8,635	27.80	7,290	25.40
Discounted bills	-	-	-	-
Total amount of NPLs	31,061	100.00	28,702	100.00

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; financial services; education; information transmission, computer services and software; scientific research, technical services and geological prospecting; health, social security and social welfare, etc.

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(XI) Distribution of NPLs by collateral types

Unit: RMB million, %

Item	30 June 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Unsecured loans	7,300	23.50	6,425	22.38
Guaranteed loans	12,354	39.77	11,546	40.23
Mortgage loans	10,222	32.91	9,402	32.76
Pledged loans	1,185	3.82	1,329	4.63
Total amount of NPLs	31,061	100.00	28,702	100.00

(XII) Repossessed assets and provision for impairment

Unit: RMB million

Item	30 June 2017	31 December 2016
Reposessed assets	469	406
Of which: land, buildings and structures	469	406
Less: Provision for impairment	(18)	(17)
Net value of reposessed assets	451	389

(XIII) Provision for loan impairment losses and write-off

The Group's provision for loan impairment includes provision for corporate loans, personal loans and discounted bills. The Group conducted impairment tests on the carrying value of credit assets on the balance sheet date, and the provision for impairment would be recognized through profit or loss for the current period if there was objective evidence indicating that the credit assets were impaired.

The following table sets out the changes in the provision for impairment of loans at the Group:

Unit: RMB million

Item	30 June 2017	31 December 2016
Balance at the beginning of the period	43,634	38,119
Charge for the period	10,123	22,798
Release for the period	(818)	(687)
Recoveries for the period	453	747
Unwinding of discount (note)	(468)	(876)
Write-offs during the period	(2,036)	(5,632)
Disposal in the period	(3,621)	(10,835)
Balance at end of the period	47,267	43,634

Note: It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

VI. CAR Analysis

Please refer to relevant contents of the "Accounting Data and Financial Indicators" for details.

VII. Segment Performance

The Group divided its business into different segments by geographical areas and business lines for management purpose. Fund lending between different regional and business segments was conducted at an internal transfer price determined on the basis of market interest rate, interest income and interest expense among segments were recognized. Please refer to “Notes to Financial Statements” for more details.

The following table sets out the performance of the Group’s regional and business segments:

(I) Performance by region

Unit: RMB million

Item	January – June, 2017		January – June, 2016	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	6,942	2,572	7,890	2,638
Pearl River Delta	4,389	1,237	4,909	689
Bohai Rim	6,558	1,635	6,911	3,131
Central	6,621	2,728	6,480	2,787
Western	4,391	1,261	4,402	1,080
Northeastern	1,960	216	2,360	781
Head Office	14,943	11,963	13,805	10,414
Overseas	581	392	324	192
Total	46,385	22,004	47,081	21,712

(II) Performance by business segments

Unit: RMB million

Item	January – June, 2017		January – June, 2016	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking business	21,345	8,404	21,068	6,314
Retail banking business	17,949	7,752	14,111	5,156
Financial market business	7,013	5,841	11,812	10,171
Other business	78	7	90	71
Total	46,385	22,004	47,081	21,712

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VIII. Others

(I) Changes in major financial indicators and reasons

Unit: RMB million, %

Item	30 June 2017	31 December 2016	Increase/ (Decrease)	Major reasons for change
Deposit with banks and other financial institutions	117,919	232,630	-49.31	Deposits with depository Financial Institutions scaled down
Financial assets designated at fair value through profit or loss	20,804	7,834	165.56	The bonds held for trading increased
Positive fair value of derivatives	2,142	4,950	-56.73	Affected by changes in RMB exchange rate, the revaluation of some foreign exchange swaps decreased
Financial assets held under resale agreements	97,243	67,000	45.14	Debt securities held under resale agreements increased
Held-to-maturity investments	352,405	257,500	36.86	Held-to-maturity investments increased
Other assets	58,881	35,720	64.84	The precious metals held scaled up
Deposits from banks and other financial institutions	519,366	830,354	-37.45	Deposits from depository Financial Institutions scaled down
Negative fair value of derivatives	2,815	4,368	-35.55	Affected by changes in RMB exchange rate, the revaluation of some foreign exchange swaps decreased
Financial assets sold under repurchase agreements	14,094	41,195	-65.79	Debt securities sold under repurchase agreements decreased
Other comprehensive income	(879)	509	N/A	The available-for-sale financial assets suffered valuation losses during the period

Item	January - June, 2017	January - June, 2016	Increase/ (Decrease)	Major reasons for change
Interest expense	48,316	36,985	30.64	Debt securities issued and deposits from banks and other financial institutions incurred more interest expenses
Fee and commission expense	956	704	35.80	Expenses arising from bank card transaction fees increased
Net trading (losses)/gains	(1,330)	546	N/A	The valuation losses of derivative financial instruments increased
Net foreign exchange gains/(losses)	1,140	(174)	N/A	The net foreign exchange gains increased due to the changes of exchange rate
Other comprehensive income	(1,388)	(658)	110.94	The available-for-sale financial assets suffered valuation losses

(II) Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue or outstanding debts.

(III) Interests receivable and provision for bad debts related

1. Change in on-balance sheet interests receivable

Unit: RMB million

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance sheet interests receivable	25,376	49,321	47,621	27,076

2. Provision for bad debts of interests receivable

Unit: RMB million

Item	30 June 2017	31 December 2016	Increase
Balance of provision for bad debts of interests receivable	48	37	11

(IV) Other receivables and provision for bad debts related

1. Change in other receivables

Unit: RMB million

Item	30 June 2017	31 December 2016	Increase
Other receivables	9,538	6,719	2,819

2. Provision for bad debts of other receivables

Unit: RMB million

Item	30 June 2017	31 December 2016	Increase
Balance of provision for bad debts of other receivables	577	557	20

Discussion and Analysis of Operations

IX. Performance of Business Segments

(I) Corporate banking

1. Corporate deposit and loans

The Bank's corporate banking segment focused on raising income and quality, strengthened coordination among products and enhanced the capability of layered services for customers. At the same time, it accelerated business transformation and structural adjustment, and utilized credit resources in an intensive and efficient manner. As a result, the business segment realized continuous, stable development. As at the end of the reporting period, the balance of corporate deposits (including corporate segment in other deposits) amounted to RMB1,785,306 million, representing an increase of RMB126,460 million or 7.62% over the end of the previous year. The balance of the Bank's corporate loans stood at RMB1,188,851 million, representing an increase of RMB112,877 million or 10.49% as compared with that at the end of the previous year.

2. Small and micro finance business

The Bank kept improving business policies and mechanisms while focusing on providing loans to Small and Micro Enterprises (SMEs). It stepped up efforts to introduce more marketing channels, and developed the sci-tech finance and green finance vigorously. Additionally, it developed online system and services for SMEs to apply and obtain loans electronically, and kept delivering better financing experiences to customers. As a result of these efforts, the SME business grew steadily. Calculated by the criteria for classifying small and medium-sized enterprises jointly issued by the Ministry of Industry and Information Technology and other three ministries in 2011 as well as regulatory requirements of CBRC, the balance of the Bank's SME loans amounted to RMB388,819 million as at the end of the reporting period, representing an increase of RMB47,849 million or 14.03% as compared with that as at the end of the previous year, growing faster than the whole Bank's average. The number of SME clients reported 253,900, representing an increase of 44,900 over the same period of the previous year.

3. Investment banking

The Bank innovated in the investment banking systems and mechanisms. It merged the original two departments (DCM & Investment Banking Department and Strategic Corporate Department) into the Strategic Corporate and Investment Banking Department and provided debt financing services. During the reporting period, it served as a leading underwriter in the issuance of 114 non-financial corporate debt instruments with a value of RMB91,411 million. To serve the real economy, it issued the first "Belt and Road" project construction debts in China. As an effort to conduct asset securitization business, it issued Guangying 2017 CLO Series 1 and Guangying 2017 CLO Series 2. At the same time, it strived to market the M&A business and finished its first management buyout deal.

4. Trade banking

By taking advantage of capital efficiency, the Bank kept optimizing its product line of trade banking segment and realized a rapid development of fee-based business. The Bank shored up efforts to market the international settlement by promoting collaboration at home and abroad. Flexible pricing methods were applied to expand the source and application of foreign currency funds. Additionally, the Bank dynamically supported the business related to the Pilot Free Trade Zones in China, and was determined to set up a bank-wide free trade business platform. To fuel the development of internet finance, the Bank built a cross-border e-commerce payment system and online supply chain financing platform. At the end of the reporting period, the balance of the on balance-sheet and off balance-sheet trade finance combined (excluding bank's acceptance bills) increased by 20.37% as compared with that as at the end of last year.

(II) Retail banking

1. Personal deposits

The Bank centered on the sources and flows of customers funds to apply the projects and products into more fields. At the same time, it reinforced the cooperation between corporate and personal business, different personal business, and different channels, with a view to bringing customer resources together for sharing. By adapting itself to the changing market condition, it continuously promoted such major projects as shanty town transformation, payroll service, and personal transaction fund custody. As of the end of the reporting period, the balance of personal deposits (including personal deposits in other deposits) of the Bank amounted to RMB485,997 million, representing an increase of RMB23,956 million over the end of the previous year, of which the balance of core personal deposits stood at RMB301,850 million, representing an increase of RMB1,550 million over the end of the last year.

2. Personal loans

The Bank focused on customer needs and provided them with a wide range of financing products and convenient quality financing services as a means to practice the inclusive finance. At the same time, it supported residents' rational demand for housing loans by conducting classified adjustment and adopting varying policies for different cities. The Bank stably facilitated the SME financing business and supported the development of the real economy. Additionally, big data and internet technology were employed to offer innovative solutions to small amount consumer finance. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) of the Bank amounted to RMB500,676 million, an increase of RMB49,871 million or 11.06% over the end of the previous year. The balance of consumer loans reported RMB372,362 million, up by RMB54,091 million from that as at the end of the previous year. The volume of personal loans granted by the Bank in the first half of 2017 registered RMB114,319 million.

3. Private banking

By strategically targeting at the mid-to-high end customers, the Bank kept deepening the connotation of the "Sunshine Fortune" brand, and gathered the pace in developing personal banking. Driven by the two wheels of Sunshine Wealth Management and agency business, the Bank set up an open product platform so as to meet high-end customers' needs for wealth management and asset allocation. At the same time, it refined the segmentation of customers and provided them with corresponding services to construct a differentiated service system. With the big data support which makes meticulous management possible, the management capacity as well as service quality were improved. At the end of the reporting period, the Bank had 29,520 private banking customers, representing an increase of 1,307 customers or 4.63% over the end of the previous year. The total assets under management amounted to RMB281,398 million, up by RMB23,433 million or 9.08% from that as at the end of the previous year.

Discussion and Analysis of Operations

4. Bank card business

(1) Debit card business

Taking into account the regulator's requirements for category-based settlement account management in personal banking, the Bank actively explored the application scenarios for Category I, II and III accounts, and improved control over system functions. Moreover, it strengthened innovations in debit card products, and earnestly promoted the proper integration of finance and non-finance businesses of debit cards in fields such as social insurance, medical insurance, public transportation, campus and community. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 60.58 million, an increase of 2.12 million over the end of the last year.

(2) Credit card business

The Bank carried out the cross-sector cooperation with premium internet companies and issued co-branded cards in a bid to build a multi-dimensional product system covering all consumption scenarios. By taking advantage of internet resources and big data technology, the Bank managed to expand the customer base in batches so that its customer acquisition efficiency was successfully increased. More refined, differentiated and experienced mobile life services were offered with continuous upgrading of its credit card APP as well as the launching of the new functions for payment by scanning QR code and coupon issuance. At the end of the reporting period, 3,738.7 thousand new credit cards were issued by the Bank with the total number of credit cards reaching 39.6974 million. The accumulated transactions volume during the reporting period amounted to RMB741,942 million, up by 24.08% over the same period of the last year. The overdraft balance (excluding the payment adjustment to transitional account) amounted to RMB249,384 million, up by 29.43% year on year. The overdue ratio for bills past due for over 180 days was 1.11%, which indicated that the risk remained controllable. The Bank generated an operating income (with fee expense deducted) of RMB12,970 million, up by 34.77% year on year.

5. E-banking

The e-banking business gained rapid development overall and witnessed a stable growth in its customer base, a record high in operating incomes, sound development in open internet finance and a continuous brand popularity enhancement of "Sunshine Direct Bank", "Cloud Fee Payment", "Cloud Payment", "E-Commerce", "E-Wealth Management" and "E-Financing". At the end of the reporting period, the Bank had 30,535.9 thousand mobile banking customers, up by 3,622.4 thousand over the end of the previous year; 21,353.8 thousand customers for WeChat banking, up by 2,804.9 thousand over the end of the previous year; 26,097.5 thousand retail e-banking customers, up by 1,587.5 thousand over the end of the previous year; 18,922.4 thousand electronic payment customers, up by 2,663.8 thousand over the end of the previous year; and 373.9 thousand corporate e-banking customers, up by 15.7 thousand over the end of the previous year. The ratio of substitution of e-banking channels for traditional banking outlets was as high as 96.25%, a level at the forefront of the industry.

(III) Financial markets and interbank business

1. Financial markets business

The Bank optimized its investment portfolio by proactively investing in financial bonds of policy banks, treasury bonds, and other high-liquidity assets, while rationally narrowed its exposure in credit bonds and money market transactions. The Bank actively participated in the open market operations (OMOs) by PBOC, and steadily issued interbank CDs in the domestic financial market. The Bank continuously promoted precious metal sector, and effectively enhanced fee-based fiduciary transaction business. Furthermore, the Bank reinforced the comprehensive risk management of its financial markets business so as to guarantee sound operations and meet regulatory and compliance requirements. At the end of the reporting period, the balance of bonds in proprietary account amounted to RMB492,550 million, accounting for 12.21% of the Bank's total assets, 55.5% of which were government bonds and local government bonds.

2. Interbank business

Taking risk management and liquidity safety as top priority, the Bank adjusted its product structure and consolidated the customer base to maintain a moderate business scale in line with the market changes and regulatory requirements. The Bank also continued to work with other banks in assets and liabilities operation and vigorously expanded cooperation with non-bank financial institutions. The licensed operation for interbank business was strictly implemented in order to achieve the compliant and orderly business development. At the end of the reporting period, the balance of interbank liabilities of the Bank amounted to RMB655,226 million and the balance of interbank assets reached RMB873,750 million.

3. Asset management

The Bank optimized the structure of fund source for wealth management products by developing the retail wealth management business as its core strategy while intensifying efforts to market its corporate wealth management business. At the same time, the Bank actively pushed forward business innovations and achieved new breakthroughs in asset standardization. As a result, the products portfolio of wealth management was continuously diversified and more comprehensive wealth management solutions could be provided to customers. At the end of the reporting period, the balance of wealth management products amounted to RMB1.26 trillion, and the accumulated sales volume of the wealth management products in the first half of 2017 totaled RMB2.34 trillion. All products under Sunshine Wealth Management brand were honored upon maturity, and the risk status of the outstanding products remained normal.

4. Asset custodian services

The Bank targeted at "expanding market, strengthening innovation and enhancing service". With continuous efforts in marketing asset custodian business, the Bank aimed to expand its market share. The Bank got actively involved in product innovation in light of market demands, while tightening risk control in a bid to ensure safe and smooth business operation. The custody product portfolio as well as the business system were further optimized and customer services quality was improved. At the end of the reporting period, the volume of asset custodian business reached RMB4,708,689 million, up by 6.23% over the end of the previous year, and the income generated from the business stood at RMB888 million, representing an increase of 5.46% over the same period of the last year.

Discussion and Analysis of Operations

X. Business Innovation

According to the plan for strategic transformation, the Bank strived to promote innovation in products and services. Specifically, the Union Pay QR code-based payment was initiated, making the Bank one of the first commercial banks that supported such function in China; the “Smart Voice System” was launched which innovatively integrated its 95595 customer service system with artificial intelligence (AI) technology; the public donation system for the “Mother Water Cellar” charity project was introduced by utilizing the block chain technology; the online cross-border e-commerce payment system was set up by taking advantage of financial science and technology in order to facilitate electronization of cross-border trade finance; the first medium-term banking bills in the country for the purpose of financing BRI (the Belt and Road Initiative) construction projects were successfully issued; and the first phase of credit asset-backed securities were issued, which was at the forefront of the market in terms of single issuance scale.

XI. Information Technology

The Bank successively completed the construction of the following major platforms and systems, including the Internet Financing System, New Gold Trade System, Phase II of Sunshine Asset Management System, Corporation Active Liability Management System, Personal Loan Management System, Fund Trusteeship System and Asset Management Comprehensive Administrative Business Valuation and Information Disclosure System. At the same time, in order to promote the application of new technologies such as cloud computing, big data and AI, the Bank put efforts in the construction of the Cash Management Cloud System, Big Data Application System, Financial Service Platform, New Pay & Clearing Platform, Platform of Independent Innovation and Unified Testing Management Platform. In addition, the Bank introduced a new product named “Filter” which was based on the big data concerning risk. A Call Center of Automatic Speech Recognition System and a Multimedia Customer Service System were launched. During the reporting period, the Bank’s business operation remained safe and sound with no material accidents occurred.

XII. Investment Analysis

(I) External equity investments

At the end of the reporting period, the balance of the Bank’s equity investments amounted to RMB4,254 million, representing an increase of RMB885 million or 26.27% from the end of the previous year.

(II) Material equity investments

Unit: RMB ten thousand, ten thousand shares, %

Investment entity	Principle business	Investment amount	Number of shares held	Percentage of shareholding	Profit or Loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	270,000	333,000	90	29,351	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Village Bank Co., Ltd.	Commercial bank	10,500	10,500	70	743	Sany Group Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Hunan Poly Real Estate Development Co., Ltd., Shaoshan City Construction Investment Company Limited
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	Commercial bank	7,000	7,000	70	349	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Corporation Limited	Investment banking	HKD1,600 million	-	100	HKD1.05 million	Nil
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	380,000	Other commercial banks

Notes:

1. All the above mentioned major equity investments were made with equity fund.
2. All the above-mentioned major equity investments were long-term investments.
3. All the above-mentioned equity investments were not subject to any litigation.

(III) The Bank had no material non-equity investment, and conducted bond investment in the ordinary course of its business during the reporting period. Please refer to the aforementioned for details.

(IV) Financial assets designated at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to "Notes to the Financial Statements" for details.

XIII. During the reporting period, there was no material disposal of asset or equity interest of the Bank.

Discussion and Analysis of Operations

XIV. Analysis of major companies in which the bank held equity

(I) Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company is engaged in financial leasing business. The company was registered in Wuhan City, Hubei Province with a registered capital of RMB3,700 million. During the reporting period, the company was mainly engaged in financial leasing business in relation to water, environment, public utility management and transportation. At the same time, it also developed its aircraft leasing business rapidly and studied hard about how to operate the leasing business in transportation and health care better. As at the end of the reporting period, its total assets, net assets and net profit were RMB66,193 million, RMB5,501 million and RMB294 million, respectively.

(II) Shaoshan Everbright Village Bank Co., Ltd.

Founded in September 2009, the village bank is engaged in commercial banking services including deposit taking, lending, etc. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it continued working hard to serve farmers, agriculture and rural areas, and developed the small and micro-sized corporate business, which helped support the growth of county economy by exploring ways of supporting rural economic development with its financial products and services. At the end of the reporting period, its total assets, net assets and net profit posted RMB936 million, RMB202 million, RMB7.43 million, respectively.

(III) Jiangsu Huai'an Everbright Village Bank Co., Ltd.

Incorporated in February 2013, the village bank was engaged in commercial banking services including deposit taking, lending, etc. It was registered in Huai'an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve farmers, agriculture and rural areas, and developed the small and micro-sized corporate business, which achieved steady growth. At the end of the reporting period, its total assets, net assets and net profit reached RMB889 million, RMB109 million, and RMB3.49 million, respectively.

(IV) CEB International Investment Corporation Limited

Registered with a capital of HKD1,600 million in Hong Kong in June 2015, the company has been licensed in securities trading, securities consulting, financial consulting and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsor and underwriting, public offering and placement of new shares on secondary market, and enterprise refinancing. At the end of the reporting period, its total assets and net assets stood at HKD3,675 million and HKD1,532 million, respectively. During the reporting period, its net profit reached HKD1.05 million.

XV. Special Purpose Entities Controlled by the Bank and Structured Products

1. There are no special purpose entities controlled by the Bank.
2. The structured products whose equities are held by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to the Financial Statements" for details.

XVI. Risk Management

(I) Credit risk management

The Bank continued to optimize its comprehensive risk management framework, intensified efforts to build the three defense lines, and increased the risk control efficiency over the key processes. The reform on risk management system and scheme was deepened; operation risk management mechanisms in respect of asset management, interbank operation and investment banking were perfected. Additionally, the Bank enhanced the credit allocation management of key group corporate customers, streamlined the procedures for extending credit to the group corporate customers, and regulated the unified credit management of group corporate customers.

The Bank continued to take serving the real economy as the fundamental approach to guard against risk, actively supported enterprises in transformation and upgrade, and properly developed industrial finance in a down-to-earth manner. Based on the internet and technology, the Bank expanded marketing channels, improved service procedure, innovated in products and services and effectively developed inclusive finance and consumer finance. Based on major national strategies such as the “Three New Strategies”, the construction of Xiong’an New Area and the development of “Guangdong-Hong Kong-Macao Greater Bay Area”, the Bank made great efforts to develop infrastructure finance. In addition, inspired by ideas of investment banking, the Bank strengthened integration of funds, products and channels, and carried out comprehensive financial services based on the actual demands of the real economy.

The Bank improved the all-round management system of asset quality, established and further developed the specialized reviewer team, and strengthened the coordinated management over asset quality based on its assessment, supervision and accountability mechanisms. In the meantime, it reinforced supervision and guidance for key branches in controlling NPLs and NPL ratio and disposal of large-amount risky loans, and controlled risk from the sources by adjusting the structure of loans by industry, customer and risk mitigation instruments. The Bank maintained overall stable asset quality by actively compressing and reducing special-mention loans, strengthening recovery of NPLs and strictly controlling new NPLs.

Please refer to “Notes to the Financial Statements” for more details.

(II) Liquidity risk management

The Bank held a prudent and stable attitude towards the liquidity risk management. While the Central Bank continued intensifying the de-leverage initiative, the Bank upheld “daytime liquidity security and regulatory attainment” as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range. At the same time, the Bank made preventive liquidity arrangements in advance, carried out liquidity stress tests on a regular basis, adjusted pricing of internal fund transfer from time to time, explored diversified liability channels, promptly assessed the potential risks, optimized sound liquidity contingency plans, and enhanced the ability in withstanding liquidity risk.

Please refer to “Notes to the Financial Statements” for further details.

Discussion and Analysis of Operations

(III) Market risk management

The Bank continued to improve its market risk management mechanism, optimized the structure of market risk limit indicators and strengthened the limit management by incorporating the business lines relating to treasury management, interbank financial business, precious metal trading, investment banking and overseas branches into the market risk limits management scheme with corresponding rational risk limits. At the same time, the Bank kept optimizing the decision-making mechanism and risk management procedures for investments in market-oriented businesses. More efforts were put in risk predictions on interest rate and exchange rate as well as the concerns on the possible mutual conversion between market risk, liquidity risk and credit risk so as to manage market risk more proactively. Additionally, the Bank dynamically monitored the limits of interest rate and exchange rate risk, reported limits implementation status and undergone stress tests on a regular basis.

Please refer to the “Notes to the Financial Statements” for further details.

(IV) Operational risk management

The Bank integrated the administrative resources concerning internal control and operational risk, and streamlined the assessment tools and procedures of the risk control and self-assessment (RCSA). Upholding the general principle of “hierarchical management with clearly-cut priorities”, the Bank set its business and functional departments as “the first line of defense” in operational risk management. The timely prediction, warning, report and disposal of operational risk helped to substantially prevent the occurrence of material operational risk incidents or cases. At the same time, the Bank continued to intensify investigation in the information on abnormal fund transactions carried out by employees and customers, and brought the role of the unannounced inspections into full play. The emergency processing mechanism for significant incidents was further improved.

Please refer to “Notes to the Financial Statements” for further details.

(V) Compliance risk management

The Bank kept improving the compliance risk management system, focusing on implementing internal control and compliance measures at local outlets. The Bank closely followed up with the changes in external laws and regulations and correspondently upgraded its own laws and regulations from time to time. Annual assessment and review of rules and policies were carried out in a bid to improve the Bank’s policy environment. The Bank regularly monitored internal control and compliance practice, and strengthened the pre-warning function of such inspections. Additionally, the Bank held the special treatments towards the business related to the “three categories of violations” and reinforced the rectification on problems identified from the compliance and audit check. It stepped up efforts on team building of part-time compliance managers by applying the name-list management and monitoring their duty performance more stringently.

(VI) Reputational risk management

The Bank attached great importance to its reputational risk management. By such means as timely supervision and effective communication, it properly dealt with the events that might trigger reputational risk, and put efforts in daily employee trainings, risk inspection and emergency drills. As a result of these efforts, the employees effectively improved their ability to manage reputational risks, and worked hard to safeguard the Bank’s reputation and image. There was no significant incident that could greatly influenced public sentiment and jeopardized the Bank’s reputation and image during the reporting period, Its reputational risk remained controllable overall.

(VII) Anti-money laundering (AML) management

The Bank gathered the pace in transforming its management mode, and steadily advanced the pilot program of AML centralized operations. It vigorously promoted and applied the new-generation AML system, and intensified efforts to monitor and identify behaviors in breach of laws and regulations. At the same time, the Bank constantly improved the AML watch list system, and put high-risk customers under intensified management. The Bank reported the data of large-value and suspicious transactions to the regulators, and assisted them in conducting investigations.

XVII. Outlook of the Bank

(I) Fulfillment of business plan

Despite the compelling challenges and changes throughout the reporting period, the Bank still sought for robust operation. As a result, its business scale sustained steady growth, initial progresses were made in structural adjustment, and its performance conformed to the requirement of regulatory indicators with steady progress in overall operation. The annual business plan had been well executed.

(II) Potential risks and counter measures

1. Potential risks

Since the beginning of 2017, the Chinese economic growth has maintained the upwardly steady growth and run within a reasonable range in the first half of 2017. In the meantime, there are still many uncertainties in the international community. The world economy is confronted with quite a few contradictions and problems, which might aggravate more financial risk. In accordance with the requirements raised at the 2017 National Financial Work Conference, more prominence should be given to the initiative to defuse and protect against the systematic financial risk. Four major principles of “returning to the primary target, optimizing structure, strengthening supervision and allowing market to play the guiding role” are put forward. Three major tasks of “serving real economy, preventing and controlling financial risk and deepening financial reform” are assigned. The de-leverage and tightened regulation will propel the banking industry toward sustained, healthy development in the long run, while the commercial banks may suffer from tremendous pressure arising from business adjustment in the foreseeable near future.

2. Countermeasures

Committed to seeking progress while keeping performance stable, the Bank will focus on improving the quality and efficiency of development, safeguard the bottom line of risk, and strengthen comprehensive risk management and internal control. At the same time, it will base management on a solid foundation, gather pace in operational transformation, and keep enhancing the ability in withstanding risk and seeking for sustainable growth, in a bid to realize the annual business targets.

Significant Events

I. Important Undertakings and Performance of Undertakings Given by the Bank and the Bank's Actual Controllers, Controlling Shareholders or other Related Parties

During the reporting period, the Bank, its actual controllers and controlling shareholders did not make any new important undertakings. As at the end of the reporting period, all the continuing commitments made by the Bank, its actual controllers and controlling shareholders were properly fulfilled, with the details listed in the *2016 Annual Report*.

II. Purchase, Sale or Repurchase of the Bank's Listed Securities

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

III. Matters Concerning Bankruptcy or Reorganization

During the reporting period, no bankruptcy or reorganization took place at the Bank.

IV. Material Litigation and Arbitration Matters

During the reporting period, the Bank was not involved in any material litigation or arbitration.

V. Use of Capital by the Controlling Shareholders or Other Related Parties of the Bank for Non-operating Purposes

During the reporting period, there was no non-operational capital occupation by the controlling shareholder or other related parties of the Bank.

VI. Penalty Imposed on the Bank or its Directors, Supervisors, Senior Management Members, Controlling Shareholders and Actual Controllers

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management members, controlling shareholders and actual controllers was subject to any investigation by the competent authorities, any mandatory measures by the judicial authorities or the disciplinary departments, transferal to the judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by the CSRC, or public censure by any stock exchange, or any penalty with significant impact on the Bank's operation imposed by any other regulatory body.

VII. Credibility of the Bank, its Controlling Shareholders and Actual Controllers

During the reporting period, the Bank, its controlling shareholders and actual controllers did not fail to comply with effective court judgments or repay significant matured debts.

VIII. Implementation of Stock Incentive Plan and Employee Stock Ownership Plan

As at the end of reporting period, the Bank did not implement any stock incentive plan or employee stock ownership plan.

IX. Matters Concerning Connected Transactions of the Bank under the *Rules Governing the Listing of Securities on HKSE* (“the Hong Kong Listing Rules”)

In accordance with the Hong Kong Listing Rules, the transactions between the Bank and its connected persons (as defined in the Hong Kong Listing Rules) constitute the connected transactions of the Bank. The Bank has monitored and managed these connected transactions in accordance with the Hong Kong Listing Rules.

(I) Non-exempt connected transactions

1. Everbright Group’s subscription of domestic convertible bonds

On 13 January 2017, the Bank entered into an agreement with Everbright Group on subscription of convertible bonds, and announced the connected transaction with Everbright Group, under which the Everbright Group proposed to subscribe the domestic convertible bonds to be issued by the Bank worth no more than RMB8,800 million. The details of the specific mandate were set out in the Bank’s announcement dated 13 January 2017 on *“Connected Transaction—Subscription of Domestic Convertible Bonds by Connected Person”*. Since Everbright Group is a connected person of the Bank, the transaction constituted a connected transaction of the Bank and was subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The transaction was proposed to and passed by the independent shareholders by way of ordinary resolution at the 2017 First Extraordinary General Meeting of the Bank on 28 February 2017. On 17 March 2017, the Bank issued the domestic convertible bonds of RMB30,000 million, and the abovementioned connected transaction was finished simultaneously (the actual subscription of Everbright Group stood at RMB8,709 million).

2. Everbright Group’s subscription of newly-issued H shares

On 2 May 2017, the Bank entered into an agreement with Everbright Group on subscription of H shares, and announced the connected transaction with Everbright Group, under which the Everbright Group proposed to subscribe no more than 2,331 million H shares to be issued by the Bank. The details of the specific mandate were set out in the Bank’s announcement dated 2 May 2017 on *“Issuance of H Shares Under Specific Mandate and Connected Transaction – Subscription of New Shares by Connected Person”*. Since Everbright Group is a connected person of the Bank, the transaction constituted a connected transaction of the Bank and was subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The transaction was proposed to and passed by the independent shareholders by way of ordinary resolution at the 2016 Annual General Meeting of the Bank on 20 June 2017. As of the publication date of the Report, the transaction was approved by the CBRC and yet to be approved by other regulators.

(II) Exempted connected transactions

During the reporting period, a series of connected transactions were carried out between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the Hong Kong Listing Rules, such connected transactions were exempted from reporting, annual review, announcement and independent shareholders’ approval requirements.

Significant Events

X. Material Contracts and Their Performance

(I) Significant events of material custody, contracting or leasing assets of other companies, or other companies' material custody, contracting or leasing assets of the Bank

During the reporting period, there was no significant matter in relation to any material arrangement for custody, contracting or leasing of assets by or to the Bank.

(II) Significant guarantee

The provision of guarantees is in the ordinary course of business at the Bank. During the reporting period, the Bank did not enter into any material guarantee which needed to be disclosed save for the financial guarantees within its business scope as approved by the People's Bank of China (PBC) and the CBRC. No guarantee business that violated the applicable regulations of decision-making procedures took place at the Bank.

(III) Other material contracts

During the reporting period, the Bank had no other material contracts and all contracts regarding operations of ordinary business were duly performed.

XI. Other Significant Events

(I) Issuance of convertible corporate bonds

1. Overview

The Bank had its plan for publicly issuing A share convertible corporate bonds and its listing approved by the CBRC and the CSRC (please refer to the *2016 Annual Report* for more details). On 17 March 2017, the Bank finished issuing the A share convertible bonds of RMB30,000 million. The proceeds amounted to RMB30,000 million and the net funds stood at some RMB29,923 million after deducting the issuance expense. On 5 April 2017, the abovementioned A share convertible bonds were listed on Shanghai Stock Exchange (SSE) (stock name: Everbright Convertible Bonds, stock code: 113011).

2. Convertible bond holders and guarantors during the reporting period

Unit: RMB, %

Convertible bond holders at the period end		
Guarantors of convertible bonds of the Bank		
Top ten convertible bond holders		
Name of convertible bond holder	Bonds held at period end	Percentage of bonds held
China Everbright Group Ltd.	8,709,153,000	29.03
Anbang Asset Management – China Merchants Bank (CMB) – Anbang Asset– Gongying No.3 Collective Asset Management Product	1,956,305,000	6.52
Anbang Asset – China Minsheng Bank (CMBC) – Anbang Asset – Shengshi Jingxuan No.2 Collective Asset Management Product	983,998,000	3.28
Specific account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China (ICBC))	913,251,000	3.04
Anbang Asset Management – CMBC – Anbang Asset – Wenjian Jingxuan No.1 Collective Asset Management Product (Phase V)	775,098,000	2.58
Specific account for collateralized bond repurchase in the securities depository and clearing system (CMB)	659,763,000	2.20
Anbang Asset – CMBC – Anbang Asset – Shengshi Jingxuan No.5 Collective Asset Management Product	632,601,000	2.11
Anbang Asset Management – CMBC – Anbang Asset – Wenjian Jingxuan No.2 Collective Asset Management Product (Phase V)	560,731,000	1.87
Anbang Asset Management – CMBC – Anbang Asset – Wenjian Jingxuan No.1 Collective Asset Management Product (Phase II)	558,629,000	1.86
Anbang Asset Management – CMBC – Anbang Asset – Wenjian Jingxuan No.2 Collective Asset Management Product (Phase II)	525,872,000	1.75

3. Changes in convertible bonds during the reporting period

For the convertible bonds issued by the Bank, the commencement date of the conversion period will be 18 September 2017, i.e. the first trading day after six months from the completion of the issuance; and the ending date will be 16 March 2023, i.e. the bond maturity date. As at the disclosure date of the Report, the “Everbright Convertible Bonds” issued by the Bank hadn’t entered the period of conversion, thereby incurring no share conversion.

Significant Events

4. Previous adjustments of conversion price

On 4 July 2017 (the date of record), the Bank distributed dividends on ordinary shares (A shares) for 2016. In accordance with the applicable provisions in the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the “Everbright Convertible Bonds” saw its initial conversion price adjusted from RMB4.36 per share to RMB4.26 per share since 5 July 2017 (the ex-dividend date).

Unit: RMB

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	28 June 2017	<i>China Securities Journal</i> , <i>Shanghai Securities News</i> , <i>Securities Times</i> , <i>Securities Daily</i> , SSE website, website of the Bank	Refer to the abovementioned contents for details.
Conversion price at the end of the reporting period				4.26

5. The Bank’s outstanding debts, creditworthiness and availability of cash for repayment of debts in future years

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin Securities Rating Co., Ltd. (hereinafter referred to as “China Chengxin” for short) to track and rate the credit standing of its A share convertible bonds issued in March 2017. China Chengxin issued the *Tracking Rating Report of China Everbright Bank Company Limited on A Share Convertible Corporate Bonds (2017)*, maintaining the credit rating of the Bank’s bond as AAA with a stable prospect and the credit rating of the bond issuer as AAA, incurring no change. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt service.

(II) Issuance of tier-2 capital bonds

The Bank had its plan for issuing tier-2 capital bonds approved by the CBRC and the PBC (please refer to the *2016 Annual Report* for more details). On 6 March 2017, the Bank issued for the first time the tier-2 capital bonds worth RMB28,000 million with the fixed coupon rate at 4.60% and a term of 10 years in the national interbank bond market, and is entitled to redeem the bonds at the end of the fifth year.

(III) Second issuance of the preference shares

On 28 February 2017, the Bank had its plan for second issuance of preference shares (refer to the 2016 Annual Report for more details) reviewed and approved at the 2017 First Extraordinary General Meeting which coincided with the 2017 First A Shareholders' Class Meeting, 2017 First H Shareholders' Class Meeting and 2017 First Preference Shareholders' Class Meeting. As at the disclosure date of the Report, the proposal was already underway.

(IV) Non-public issuance of H shares

On 2 May 2017, the proposal of the non-public issuance of H shares was reviewed and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Bank. According to the proposal, the aggregate number of non-public H shares to be issued shall not exceed 6,569 million shares, with an aggregate amount of proceeds not exceeding RMB31,000 million. On 20 June 2017, the 2016 Annual General Meeting reviewed and approved such proposal before it was approved by the CBRC on 25 July 2017.

(V) China Everbright Bank (Europe) S.A. started operation

CEB (Europe) S.A., a wholly owned subsidiary of the Bank established in Luxembourg was granted a license by the European Central Bank and started operation in July 2017.

XII. Significant Matters of Subsidiaries

(I) Everbright Financial Leasing Co., Ltd.

On 9 May 2017, the CBRC approved in its reply that the Bank could further invest no more than RMB1,980 million to Everbright Financial Leasing Co., Ltd. As at the disclosure date of the Report, the capital increase was in progress. During the reporting period, the company did not make profit distribution and got involved with no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

(II) Shaoshan Everbright Village Bank Co., Ltd.

During the reporting period, Shaoshan Everbright Village Bank Co., Ltd., did not make profit distribution and had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

(III) Jiangsu Huai'an Everbright Village Bank Co., Ltd.

During the reporting period, Jiangsu Huai'an Everbright Village Bank Co., Ltd. distributed cash dividends of RMB6 million among all equity shareholders. The village bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

Significant Events

(IV) CEB International Investment Co., Limited

In December 2016, the CBRC approved in its reply the Bank's application for further investing in the company. In April 2017, the Bank made a capital increase of HKD1 billion to the company. During the reporting period, the company did not make profit distribution and got involved with no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

XIII. Review of Interim Results

Ernst & Young, as the external auditor, reviewed the Bank's interim financial statements, which were prepared according to the International Financial Reporting Standards (IFRS) and the disclosure requirements prescribed in the Hong Kong Listing Rules. The Board of Directors of the Bank and its Audit Committee reviewed and approved the interim results and financial statements of the Bank for the six months ended 30 June 2017.

XIV. Publication of Interim Report

The Interim Report, in Chinese and English, prepared by the Bank in accordance with the IFRS and the Hong Kong Listing Rules, are available at the websites of the Stock Exchange of Hong Kong Limited and the Bank. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

Changes in Ordinary Shares Capital and Shareholders

I. Changes in Shares

Unit: share, %

	Before change		Changes during the reporting period		After change	
	Number	Percentage	Number	Percentage	Number	Percentage
I. Shares subject to trading moratorium	-	-	-	-	-	-
II. Shares not subject to trading moratorium	-	-	-	-	-	-
1. RMB-denominated ordinary shares						
(A Shares)	39,810,359,500	85.29	-	-	39,810,359,500	85.29
2. Domestically listed foreign shares	-	-	-	-	-	-
3. Overseas listed foreign shares						
(H Shares)	6,868,735,500	14.71	-	-	6,868,735,500	14.71
4. Others	-	-	-	-	-	-
III. Total shares	46,679,095,000	100.00	-	-	46,679,095,000	100.00

II. Number of Shareholders

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	248,246	1,008

III. Confirmation of the Bank's Compliance with Requirement of Sufficiency of Public Float under the Hong Kong Listing Rules

Based on the publicly available information and to the knowledge of the Directors, as at 30 June 2017, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the relevant waiver granted by the Stock Exchange of Hong Kong Limited upon the listing of the Bank.

Changes in Ordinary Shares Capital and Shareholders

IV. Shareholding of Top 10 Shareholders

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held as at the end of the reporting period	Shareholding percentage as at the end of the reporting period	Number of shares pledged/frozen
China Everbright Group Ltd.	Domestic legal person	-	A Shares	11,565,940,276	24.78	-
		-	H Shares	172,965,000	0.37	-
Central Huijin Investment Ltd.	State	-	A Shares	10,250,916,094	21.96	-
Hong Kong Securities Clearing Company Nominees Limited including:	-	-622,000	H Shares	6,862,409,480	14.70	Unknown
Ocean Fortune Investment Limited	Overseas legal person	-21,080,000	H Shares	1,605,286,000	3.44	-
China Life Reinsurance Company Ltd.	Domestic legal person	+169,518,000	H Shares	1,478,736,000	3.17	-
China Everbright Limited	Overseas legal person	-	A Shares	1,572,735,868	3.37	-
China Securities Finance Corporation Limited	Domestic legal person	-3,378,570	A Shares	1,227,230,681	2.63	-
China Reinsurance (Group) Corporation	Domestic legal person	-161,618,748	A Shares	448,094,619	0.96	-
		-	H Shares	376,393,000	0.81	-
Shenergy (Group) Co., Ltd.	Domestic legal person	-	A Shares	766,002,403	1.64	-
Zhuhai Shipping Corporation Limited	Domestic legal person	-	A Shares	723,999,875	1.55	-
Central Huijin Asset Management Ltd.	Domestic legal person	-	A Shares	629,693,300	1.35	-
Yunnan Hehe (Group) Co., Ltd.	Domestic legal person	-	A Shares	626,063,556	1.34	-

Notes:

- As at the end of the reporting period, all ordinary shares of the Bank are not subject to trading moratorium.
- Statement on the connected party relations or concerted action among the aforesaid shareholders: The Bank was aware that as at the end of the reporting period, Central Huijin Investment Ltd. held 55.67% and 71.56% interest in China Everbright Group Limited and China Reinsurance (Group) Corporation, respectively; Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Ltd.; China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group Ltd.; China Life Reinsurance Company Ltd. is a subsidiary of China Reinsurance (Group) Corporation; Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China Shipping (Group) Company. Save for the above, the Bank is not aware of any connected party relationship or concerted action among the above ordinary shareholders.
- The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 6,862,409,480 H shares as at the end of the reporting period. The Bank was aware that apart from the 1,605,286,000, 1,478,736,000, 172,965,000 and 376,393,000 H shares of the Bank held by Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Everbright Group Ltd. and China Reinsurance (Group) Corporation respectively, all of which were under the name of Hong Kong Securities Clearing Company Nominees Limited, the number of remaining H shares of the Bank held under the name of Hong Kong Securities Clearing Company Nominees Limited was 3,229,029,480 H shares.

V. During the Reporting Period, No Change Took Place to Substantial Shareholders of the Bank.

VI. Interests or Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares of the Bank under Hong Kong Laws and Regulations

As at 30 June 2017, so far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance of Hong Kong (“HKSF”) or which were required to be notified to the Bank:

Name of substantial shareholder	Notes	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of relevant shares in issue (%) ^{1,5}	Percentage of the total issued shares (%) ^{1,5}
China COSCO Shipping Corporation Limited	1	H Shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
China Shipping (Group) Company	1	H Shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
COSCO Shipping Financial Holdings Co., Limited	1	H Shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
Ocean Fortune Investment Limited	1	H Shares	Beneficial owner	Long	1,626,366,000	23.67	3.48
Central Huijin Investment Ltd.	2	H Shares	Interest of controlled corporation	Long	4,442,724,000	64.68	9.51
China Everbright Group Ltd.	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	2,587,595,000	37.67	5.54
China Reinsurance (Group) Corporation	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,855,129,000	27.00	3.97
China Life Reinsurance Company Ltd.	2	H Shares	Beneficial owner	Long	1,478,736,000	21.52	3.16
National Council for Social Security Fund		H Shares	Beneficial owner	Long	617,375,500	8.98	1.32
China Everbright Group Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	15,352,744,557	38.56	32.88
Central Huijin Investment Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	26,843,067,318	67.42	57.50

Notes:

- Ocean Fortune Investment Limited held a long position in 1,626,366,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited was wholly-owned by COSCO Shipping Financial Holdings Co., Limited, while COSCO Shipping Financial Holdings Co., Limited was wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company was wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSF, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited were deemed to be interested in the 1,626,366,000 H shares held by Ocean Fortune Investment Limited.
- China Life Reinsurance Company Ltd. held a long position in 1,478,736,000 H shares of the Bank directly. China Reinsurance (Group) Corporation held a long position in 376,393,000 H shares of the Bank directly. China Everbright Group Ltd. held long position in 2,503,965,000 H shares of the Bank directly. China Everbright Holdings Company Limited held 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. was wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation was held by Central Huijin Investment Ltd. China Everbright Holdings Company Limited was wholly-owned by China Everbright Group Ltd., while 55.67% of the issued share capital of China Everbright Group Ltd. was held by Central Huijin Investment Ltd. In accordance with the HKSF, China Reinsurance (Group) Corporation was deemed to be interested in the 1,478,736,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group Ltd. was deemed to be interested in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, Central Huijin Investment Ltd. was deemed to be interested in a total of 4,442,724,000 H shares of the Bank.

Changes in Ordinary Shares Capital and Shareholders

3. China Everbright Group Ltd. directly held a long position in 13,563,452,431 A shares of the Bank. China Everbright Group Ltd. was deemed to be interested in a long position in a total of 1,789,292,126 A shares of the Bank held by its following subsidiaries:

- (1) China Everbright Limited directly held a long position in 1,572,735,868 A shares of the Bank.
- (2) Meiguang Enyu (Shanghai) Properties Company Limited directly held a long position of 148,156,258 A shares of the Bank.
- (3) China Everbright Investment and Assets Management Co., Ltd. directly held a long position of 8,000,000 A shares of the Bank.
- (4) Everbright Financial Holding Asset Management Co., Ltd. held a long position of 60,400,000 A shares of the Bank.

Therefore, China Everbright Group Ltd. directly and indirectly held a long position of 15,352,744,557 A shares of the Bank in total.

Central Huijin Investment Ltd. directly held a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly held a long position of 609,713,367 and 629,693,300 A shares of the Bank respectively. As far as the Bank is aware, the entire issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of China Everbright Group Ltd. were held by Central Huijin Investment Ltd. respectively. In accordance with the HKSF, Central Huijin Investment Ltd. was deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 609,713,367 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,563,452,431 A shares held by China Everbright Group Ltd. Therefore, Central Huijin Investment Ltd. directly and indirectly held a long position in 26,843,067,318 A shares of the Bank in total.

4. As at 30 June 2017, the total share capital issued of the Bank was 46,679,095,000 shares, including 39,810,359,500 A shares and 6,868,735,500 H shares.
5. The percentage of shareholdings is calculated by rounding to two decimal places.

Save as disclosed above, as at 30 June 2017, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Section 2 and 3 of Part XV of the HKSF, or which were recorded in the register required to be kept by the Bank under section 336 of the HKSF.

VII. Interests or Short Positions of Directors, Supervisors and Chief Executives in Shares, Underlying Shares and Debentures of the Bank under Hong Kong Laws and Regulations

As at 30 June 2017, as far as the directors and supervisors of the Bank are aware, none of the directors, supervisors nor the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Divisions 7 and 8 of Part XV of the HKSF) which were required to be recorded in the register required to be kept and notified to the Bank and HKSE under section 352 of the HKSF, or which were required to be notified to the Bank and HKSE pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* ("Model Code") set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Shares Capital and Shareholders

I. Issuance and Listing of Preference Shares during the Reporting Period

During the reporting period, the Bank had no issuance and listing for preference shares, and the existing 300 million preference shares were listed on the SSE Comprehensive Business Platform.

II. Total Number of Preference Shareholders and Shareholdings of Top 10 Preference Shareholders

(I) Everbright P1 (Code of preference shares 360013)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)							18
Name of preference shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen	
Bank of Communications Schroder Fund Management Co., Ltd.	Others	-	37,750,000	18.88	Domestic preference shares	-	
China CITIC Bank Corporation Limited	Others	-	17,750,000	8.88	Domestic preference shares	-	
Chuangjin Hexin Fund Management Limited	Others	-	15,510,000	7.76	Domestic preference shares	-	
BOCI Securities Limited	Others	-	15,500,000	7.75	Domestic preference shares	-	
Bank of Communications International Trust Co., Ltd.	Others	-	15,500,000	7.75	Domestic preference shares	-	
Hwabao Trust Co., Ltd.	Others	-	13,870,000	6.94	Domestic preference shares	-	
China Resources SZITIC Trust Co., Ltd.	Others	-	13,870,000	6.94	Domestic preference shares	-	
CCB Trust Co., Limited	Others	-	10,000,000	5.00	Domestic preference shares	-	
China Ping An Property & Casualty Insurance Co., Ltd.	Others	-	10,000,000	5.00	Domestic preference shares	-	
China Ping An Life Insurance Co., Ltd.	Others	-	10,000,000	5.00	Domestic preference shares	-	

Note: China Ping An Property & Casualty Insurance Co., Ltd. and China Ping An Life Insurance Co., Ltd. have connected party relations. Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected party relations. Save for the above, the Bank is not aware of any connected party relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

Changes in Preference Shares Capital and Shareholders

(II) Everbright P2 (Code of preference shares 360022)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)							23
Name of preference shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen	
AXA SPDB Investment Managers Co., Ltd	Others	-	16,470,000	16.47	Domestic preference shares	-	
Shanghai Wisdom Asset Management Co., Ltd.	Others	-	13,090,000	13.09	Domestic preference shares	-	
China Everbright Group Ltd.	Others	-	10,000,000	10.00	Domestic preference shares	-	
China Life Insurance Company Limited	Others	-	8,180,000	8.18	Domestic preference shares	-	
Postal Savings Bank of China Co., Ltd.	Others	-	7,200,000	7.20	Domestic preference shares	-	
Bank of Communications Schroder Fund Management Co., Ltd.	Others	-	6,540,000	6.54	Domestic preference shares	-	
Bank of Communications International Trust Co., Ltd.	Others	-	6,540,000	6.54	Domestic preference shares	-	
China Resources SZITIC Trust Co., Ltd.	Others	-	3,680,000	3.68	Domestic preference shares	-	
BOCI Securities Limited	Others	-	3,270,000	3.27	Domestic preference shares	-	
HuaAn Future Asset Management (Shanghai) Limited	Others	-	3,270,000	3.27	Domestic preference shares	-	
Bank of Hangzhou Co., Ltd.	Others	-	3,270,000	3.27	Domestic preference shares	-	
China CITIC Bank Corporation Limited	Others	3,270,000	3,270,000	3.27	Domestic preference shares	-	

Note: Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected party relations. China Everbright Group Limited is also one of the top 10 holders of the ordinary shares of the Bank. Save for the above, the Bank is not aware of any connected party relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

III. Profit Distribution of Preference Shares

The 2017 dividend distribution proposal for the first tranche under the first issuance of preference shares (Everbright P1) was reviewed and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Bank. According to the proposal, the total dividends of RMB1,060 million (before tax) would be distributed with a dividend rate of 5.30% (before tax) on 26 June 2017. The dividend distribution plan has been implemented.

The 2017 dividend distribution proposal for the second tranche under the first issuance of preference shares (Everbright P2) was reviewed and approved at the Twelfth Meeting of the Seventh Session of the Board of Directors of the Bank. According to the proposal, the total dividends of RMB390 million (before tax) were distributed with a dividend rate of 3.90% (before tax) on 11 August 2017. The dividend distribution plan has been implemented as at the disclosure date of the Report.

IV. During the reporting period, there was no redemption of preference shares or conversion of preference shares into ordinary shares by the Bank.

V. During the reporting period, there was no voting right restoration of the preference shares of the Bank.

VI. The Accounting Policies for Preference Shares of the Bank and Reasons

According to the provisions of the “Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments” and “Rules on Differentiating Financial Liabilities and Equity Instruments and Relevant Accounting Treatment” promulgated by the Ministry of Finance, the preference shares issued by the Bank were accounted for as an equity instrument.

Directors, Supervisors, Senior Management, Staff and Business Outlets

I. During the reporting period, none of the current or former Directors, Supervisors or Senior Management members held shares or share options of the Bank, or were granted restricted shares of the Bank.

II. Profile of Directors, Supervisors and Senior Management Members

As at the end of the reporting period, the Board of Directors consisted of 15 directors, including 3 Executive Directors (Mr. Zhang Jinliang, Mr. Ma Teng, and Ms. Li Jie), 6 Non-Executive Directors (Mr. Tang Shuangning, Mr. Gao Yunlong, Mr. Cai Yunge, Mr. Zhang Shude, Mr. Li Huaqiang, and Mr. Zhao Wei), and 6 Independent Non-Executive Directors (Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun, and Mr. Wang Liguo).

As at the end of the reporting period, the Board of Supervisors has 11 Supervisors, including 3 Shareholder Supervisors (Mr. Li Xin, Mr. Yin Lianchen, and Mr. Wu Junhao), 4 External Supervisors (Mr. Yu Erniu, Mr. Wu Gaolian, Mr. Deng Ruilin, and Mr. Wang Zhe), and 4 Employee Supervisors (Mr. Ye Donghai, Mr. Sun Xinhong, Mr. Jiang Ou, and Ms. Huang Dan).

The Senior Management was composed of 9 members. They are Mr. Zhang Jinliang, Mr. Ma Teng, Ms. Li Jie, Mr. Zhang Huayu, Mr. Lu Hong, Mr. Wu Jian, Mr. Yao Zhongyou, Mr. Huang Haiqing, and Mr. Sun Qiang.

III. Appointment and Resignation of Directors, Supervisors and Senior Management Members during the Reporting Period

(I) Appointment and Resignation of Directors

1. On 10 January 2017, the CBRC approved Mr. Wang Liguo to serve as Independent Director of the Bank.
2. On 10 January 2017, Mr. Zhang Xinze ceased to serve as Independent Director of the Bank, member of the Audit Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank.
3. On 16 January 2017, due to job assignment, Mr. Wu Gang resigned from the positions of Non-Executive Director, member of the Remuneration Committee, and member of the Strategy Committee of the Board of Directors of the Bank.
4. On 28 February 2017, Mr. Cai Yunge and Mr. Liu Chong were elected as Non-Executive Directors of the Seventh Session of the Board of Directors of the Bank at the 2017 first extraordinary general meeting. On 9 May 2017, the CBRC approved Mr. Cai Yunge to serve as Non-Executive Director at the Bank, and the qualification of Mr. Liu Chong to serve as Non-Executive Director of the Bank remained to be approved by the CBRC.

(II) Appointment and Resignation of Supervisors

1. On 1 March 2017, Mr. Mou Huijun resigned from the positions of vice chairman of the Seventh Session of the Board of Supervisors, employee supervisor and member of the Supervision Committee of the Board of Supervisor of the Bank due to his retirement.
2. On 12 June 2017, Ms. Liu Yan resigned from the positions of employee supervisor of the Seventh Session of the Board of Supervisors and member of the Nomination Committee under the Board of Supervisor at the Bank.
3. On 12 June 2017, Mr. Sun Xinhong, Mr. Jiang Ou and Ms. Huang Dan were elected as employee supervisors of the Bank at the Meeting of Employee Representatives.

(III) Appointment and Resignation of Senior Management Members

On 10 January 2017, the CBRC approved Mr. Sun Qiang to serve as Assistant President of the Bank.

IV. Changes in Information of Directors and Supervisors during the Reporting Period

1. Mr. Tang Shuangning, Chairman of the Board of Directors and Non-Executive Director of the Bank, ceased to serve as Director of Everbright Securities Co., Ltd.
2. Mr. Gao Yunlong, Vice Chairman of the Board of Directors and Non-Executive Director of the Bank, started to concurrently serve as Vice Chairman of China Everbright Holdings Company Limited.
3. Mr. Zhao Wei, Non-Executive Director of the Bank, started to concurrently serve as Chairman of China Re Capital Management Company Ltd. and Director of Beijing Jingneng Clear Energy Co., Ltd.

V. Directors' and Supervisors' Interests in Contracts and Service Contracts

None of the directors or supervisors of the Bank had any material interest in any material contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the directors or supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to director or supervisor if the contract is terminated within one year for the Bank's reason (excluding statutory compensation).

Directors, Supervisors, Senior Management, Staff and Business Outlets

VI. Basic Information on Staff and Business Outlets

As at the end of the reporting period, the Bank had 41,335 employees (excluding those of subsidiaries).

The Bank had 1,147 domestic branches and outlets, which consisted of 38 tier-1 branches, 82 tier-2 branches, and 1,027 outlets, representing an increase of 28 branches and outlets over the end of the previous year. During the reporting period, the Bank established 6 tier-2 branches and 22 outlets. The Bank had 2 overseas branches which were located in Hong Kong and Seoul, separately. CEB's Luxembourg Branch has been approved by the authority in Luxembourg to start operation by the date of this report.

Details of the Bank's employees and business outlets are as follows:

Name	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	5,587	2,208,515	Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	68	2,775	419,230	No. 1, Xuanwumen Inner Street, Xicheng District, Beijing
Shanghai Branch	56	1,788	197,950	No. 1118, Pudong Avenue, Pudong New District, Shanghai
Tianjin Branch	34	1,091	61,318	Annex Building of Zhonglian Building, No. 83, Qufu Avenue, Heping District, Tianjin City
Chongqing Branch	27	963	64,901	No. 168, Minzu Road, Yuzhong District, Chongqing City
Shijiazhuang Branch	49	1,222	89,051	No. 56, Yuhua East Road, Shijiazhuang City
Taiyuan Branch	33	1,050	69,712	No. 295, Yingze Street, Taiyuan City
Huhhot Branch	17	577	29,408	Tower D, Dongfangjunzuo, Chillechuan Road, Saihan District, Huhhot, Inner Mongolia Autonomous Region
Dalian Branch	24	707	53,639	No. 4, Wuwu Road, Zhongshan District, Dalian City
Shenyang Branch	33	1,139	57,848	No. 156, Hepingbei Street, Heping District, Shenyang City
Changchun Branch	32	835	36,957	No. 2677, Jiefang Road, Changchun City
Heilongjiang Branch	37	1,035	36,305	No. 278, Dongdazhi Street, Nangang District, Harbin City
Nanjing Branch	41	1,310	183,759	No. 120, Hanzhong Road, Nanjing City
Suzhou Branch	20	858	66,002	No. 188, Xinghai Street, Industrial Park District, Suzhou City
Wuxi Branch	7	299	68,140	No. 1, Renmin Middle Road, Wuxi City
Hangzhou Branch	34	1,230	72,821	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City
Ningbo Branch	19	742	42,444	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City
Hefei Branch	44	1,288	103,107	No. 200, Changjiang West Road, Hefei City
Fuzhou Branch	36	1,226	44,092	No. 148, Beihuan Middle Road, Gulou District, Fuzhou City
Xiamen Branch	15	493	48,407	China Everbright Bank Building, No. 81, Hubin South Road, Xiamen City
Nanchang Branch	22	604	59,364	No. 399, Guangchang South Road, Nanchang City
Ji'nan Branch	30	873	50,666	No. 85, Jingqi Road, Ji'nan City
Qingdao Branch	34	1,025	78,243	No. 69, Hongkong West Road, Qingdao City
Yantai Branch	13	464	30,265	No. 111, South Street, Yantai City
Zhengzhou Branch	45	1,226	90,484	No. 18, Nongye Road, Zhengzhou City
Wuhan Branch	32	1,001	54,717	No. 143-144, Yanjiang Avenue, Jiang'an District, Wuhan City
Changsha Branch	54	1,274	96,857	No. 142, Section 3 of Furong Middle Road, Tianxin District, Changsha City

Name	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Guangzhou Branch	81	2,289	155,499	No. 685, Tianhe North Road, Guangzhou
Shenzhen Branch	50	1,186	152,546	No. 18, Intersection of Zizhu Seven Street and Zhuzilin Four Road, Shenzhen City
Nanning Branch	25	798	56,721	Oriental Manhattan Plaza, No. 52-1, Jinhu Road, Nanning City
Haikou Branch	20	709	54,502	Ground Floor, World Trade Center D/E, Shima East Road, Jinmao District, Haikou City
Chengdu Branch	26	880	65,459	No. 79, Dacisi Road, Chengdu City
Kunming Branch	23	690	32,923	No. 28, Renmin Middle Road, Kunming City
Xi'an Branch	35	1,069	68,080	No. 33, Hongguang Street, Xi'an City
Urumqi Branch	7	165	8,021	No. 165, Nanhu East Road, Urumqi City
Guiyang Branch	9	267	21,655	No. 69, Yan'an Middle Road, Yunyan District, Guiyang City
Lanzhou Branch	11	279	13,457	No. 555, Donggang West Road, Chengguan District, Lanzhou City
Yinchuan Branch	2	97	3,507	No. 219, Jiefang West Road, Xingqing District, Yinchuan City
Xining Branch	2	61	2,663	No. 57-7, Wusi West Road, Chengxi District, Xining City
Hong Kong Branch	1	136	92,187	30/F, Far East Finance Center, No. 16, Harcourt Road, Hong Kong
Seoul Branch	1	27	9,604	23/F, Wing Fung Building, 41 Cheonggyecheon Road, Jongno gu, Seoul, Korea
Adjustment on consolidation			(1,117,480)	
Total	1,150	41,335	4,033,546	

Notes:

1. The employees of the Head Office of the Bank included 2,457 staff members in the Credit Card Center and 1,673 staff members in the Remote Banking Center.
2. The number of outlets, the employees and the total assets listed in the above table excluded those of the subsidiaries of the Bank.

Corporate Governance

I. Overview of Corporate Governance

During the reporting period, the Board of Directors of the Bank continued to improve the building up of its capital management system and enhanced capital replenishment. It successfully issued tier-2 capital bonds of RMB28 billion and convertible bonds of RMB30 billion, and reviewed and approved proposals on amendments to the *Capital Management Policy*, the plan on non-public issuance of H shares, etc. Meanwhile, the Board of Directors continually pushed forward the process of internationalized development by supporting the management to set up overseas institutions in the US and Australia. The Board of Directors strictly reviewed material related-party transactions, timely disclosed related-party transactions as per requirements, and constantly improved the standard of refined management of such transactions.

During the reporting period, the Board of Supervisors of the Bank performed various supervisory duties and strengthened self-improvement in accordance with the *Articles of Association* and the *Rules of Procedure of the Board of Supervisors*. It actively carried out annual evaluation on duty performance of the Board of Directors and its members, members of the Board of Supervisors and the Senior Management. It reviewed regular reports and profit distribution plan of the Bank, earnestly conducted financial supervision, deliberated on the annual report on internal control of the Bank, and paid constant attention to progress made in establishing and improving the internal control structure of the Bank. Also, the Board of Supervisors improved the structure of its members by increasing the number of employee supervisors to meet regulatory requirements.

II. Shareholders' Meetings

The Bank organizes shareholders' general meetings in strict compliance with the *Articles of Association* of the Bank and *Rules of Procedures of the General Meeting of Shareholders* to ensure that decisions on important matters are made in compliance with the law, and to safeguard the legitimate rights and interests of shareholders. During the reporting period, the Bank convened one annual general meeting and one extraordinary general meeting, the details of which are as follows:

On 28 February 2017, the Bank convened the 2017 First Extraordinary General Meeting and the 2017 First A Shareholders' Class Meeting, the 2017 First H Shareholders' Class Meeting, and the 2017 First Preference Shareholders' Class Meeting, reviewing and approving 8 proposals on the non-public issuance of preference shares, amendments to the *Articles of Association*, the election of Non-Executive Directors and the related-party transaction of issuing A share convertible corporate bonds, etc.

On 20 June 2017, the Bank convened the 2016 Annual General Meeting and the 2017 Second A Shareholders' Class Meeting, as well as the 2017 Second H Shareholders' Class Meeting, reviewing and approving 15 proposals on the work report of the Board of Directors, the work report of the Board of Supervisors, the final accounts report and financial budget plan, the profit distribution plan, the remuneration standards for Directors and Supervisors, the non-public issuance of H shares, etc., and hearing 2 reports.

The procedures for convening, issuing the notice, and voting at the above meetings fully complied with the *Company Law*, the listing rules of the places where the Bank is listed and the *Articles of Association* of the Bank. The legal advisor engaged by the Board of Directors of the Bank attested the above shareholders' meetings of the Bank. The PRC lawyer issued the relevant legal opinion.

III. Convening of Meetings of the Board of Directors and its Special Committees

During the reporting period, the Board of Directors of the Bank held 5 meetings, including 3 on-site meetings, namely the seventh, ninth and tenth meetings of the Seventh Session of the Board of Directors, and 2 meetings via written resolutions, namely the sixth and eighth meetings of the Seventh Session of the Board of Directors. The Board of Directors considered 35 proposals in total and heard 11 reports, effectively playing its role in scientific decision-making.

The special committees under the Board of Directors convened 13 meetings in total, including 2 meetings of the Strategy Committee, 2 meetings of the Audit Committee, 2 meetings of the Risk Management Committee, 1 meeting of the Nomination Committee, 2 meetings of the Remuneration Committee and 4 meetings of the Related Party Transaction Control Committee. The special committees considered 28 proposals in total and heard and studied 6 special reports.

IV. Convening of Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors of the Bank convened 3 meetings, including 1 on-site meeting, namely the fifth meeting of the Seventh Session of the Board of Supervisors, and 2 meetings by written resolutions, namely the sixth and seventh meetings of the Seventh Session of the Board of Supervisors. The Board of Supervisors considered a total of 14 proposals and heard 1 report, effectively performing its supervisory duty.

The special committees of the Board of Supervisors convened 3 meetings in total, including 1 meeting of the Supervision Committee and 2 meetings of the Nomination Committee, and considered 8 proposals in total.

V. Information Disclosure

During the reporting period, the Bank published the 2016 Annual Report and 2017 First Quarterly Report as scheduled to fully disclose the operations and management of the Bank to domestic and foreign investors. Pursuant to the regulatory rules for disclosure, 63 provisional announcements (including non-announcement online documents) were published on the SSE, and 106 provisional announcements (including overseas regulatory announcements) were published on the HKSE, so as to ensure timely and synchronized disclosure of information in the markets of the two places. Guided by relevant requirements of regulatory authorities on the management of inside information, the Bank continued to strengthen the management of insiders to prevent leakage of sensitive information, ensuring the rights of investors to fair access to the information of the Bank.

Corporate Governance

VI. Investor Relations

During the reporting period, the Bank held the 2016 annual results (A+H shares) announcement and press conference for investors and domestic and overseas media in Hong Kong, which were attended by over 100 institutional investors and bank analysts and 8 media correspondents from home and abroad. In addition, the Bank held the 2016 explanation session for investors on cash dividend on the “SSE e-interaction” online platform of SSE, explaining issues regarding 2016 cash dividend distribution and answering questions of concern to investors. 19 visits and on-site investigations were arranged for 76 investors and domestic and overseas investment bank analysts. The Bank participated in the investment strategy seminars, and held 4 on-site group meetings with 65 participants. The Bank answered 260 phone calls, replied to over 200 enquiry emails from domestic and overseas investors, and interacted with investors via “SSE e-interaction” and other interactive platforms. The Bank’s website in both Chinese and English versions has been updated in a timely manner to keep investors well informed about the Bank.

VII. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for securities transactions by Directors and Supervisors of the Bank. Upon enquiry, all Directors and Supervisors have confirmed that they have complied with the Model Code during the six months ended June 30, 2017. The Bank has also formulated guidelines regarding the dealing of the Bank’s securities by relevant employees and the guidelines are no less exacting than the Model Code. It has not come to the attention of the Bank that any employee was in breach of the guidelines.

VIII. Statement on Compliance with the Corporate Governance Code of the Hong Kong Listing Rules

During the six months ended June 30, 2017, the Bank has applied the principles and complied with all the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Hong Kong Listing Rules.

Report on Review of Interim Financial Information



To the Board of Directors of China Everbright Bank Company Limited

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

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Introduction

We have reviewed the accompanying interim financial information set out on pages 66 to 180, which comprises the condensed consolidated statement of financial position of China Everbright Bank Company Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing 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” (“IAS 34”) issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong
25 August 2017

Unaudited Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2017	2016
Interest income		78,699	69,610
Interest expense		(48,316)	(36,985)
Net interest income	1	30,383	32,625
Fee and commission income		16,948	14,602
Fee and commission expense		(956)	(704)
Net fee and commission income	2	15,992	13,898
Net trading (losses)/gains	3	(1,330)	546
Net losses arising from investment securities	4	(76)	(77)
Net foreign exchange gains/(losses)		1,140	(174)
Other operating income		276	263
Operating income		46,385	47,081
Operating expenses	5	(14,351)	(15,413)
Operating profit before impairment		32,034	31,668
Impairment losses on assets	6	(10,030)	(9,956)
Profit before tax		22,004	21,712
Income tax	7	(5,032)	(5,244)
Net profit		16,972	16,468
Net profit attributable to:			
Equity shareholders of the Bank		16,939	16,439
Non-controlling interests		33	29
		16,972	16,468
Earnings per share			
Basic earnings per share (in RMB)	8	0.34	0.33
Diluted earnings per share (in RMB)	8	0.32	0.33

The notes on pages 73 to 180 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2017	2016
Net profit		16,972	16,468
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
– Net change in fair value		(1,959)	(982)
– Reclassified to the profit or loss upon disposal		147	90
– Related income tax effect	24(b)	453	223
Exchange differences on translation of financial statements of overseas subsidiaries		(29)	11
Other comprehensive income, net of tax		(1,388)	(658)
Total comprehensive income		15,584	15,810
Total comprehensive income attributable to:			
Equity shareholders of the Bank		15,551	15,781
Non-controlling interests		33	29
		15,584	15,810

The notes on pages 73 to 180 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2017	31 December 2016
Assets			
Cash and deposits with the central bank	9	345,530	381,620
Deposits with banks and other financial institutions	10	117,919	232,630
Placements with banks and other financial institutions	11	144,086	126,305
Financial assets at fair value through profit or loss	12	20,804	7,834
Derivative financial assets	13	2,142	4,950
Financial assets held under resale agreements	14	97,243	67,000
Interests receivable	15	27,028	25,339
Loans and advances to customers	16	1,917,181	1,751,644
Finance lease receivables	17	56,392	55,560
Available-for-sale financial assets	18	356,871	425,131
Held-to-maturity investments	19	352,405	257,500
Debt securities classified as receivables	20	514,502	627,678
Fixed assets	22	14,360	14,228
Goodwill	23	1,281	1,281
Deferred tax assets	24	6,921	5,622
Other assets	25	58,881	35,720
Total assets		4,033,546	4,020,042
Liabilities and equity			
Liabilities			
Due to the central bank		217,500	187,000
Deposits from banks and other financial institutions	27	519,366	830,354
Placements from banks and other financial institutions	28	121,766	95,501
Derivative financial liabilities	13	2,815	4,368
Financial assets sold under repurchase agreements	29	14,094	41,195
Deposits from customers	30	2,271,303	2,120,887
Accrued staff costs	31	7,909	7,776
Taxes payable	32	4,515	4,501
Interests payable	33	34,274	33,576
Debt securities issued	34	531,006	412,500
Other liabilities	35	42,823	31,316
Total liabilities		3,767,371	3,768,974

The notes on pages 73 to 180 form part of these financial statements.

	Note III	30 June 2017	31 December 2016
Equity			
Share capital	36	46,679	46,679
Other equity instrument	37	35,108	29,947
Capital reserve	38	33,365	33,365
Other comprehensive income	39	(879)	509
Surplus reserve	40	17,951	17,951
General reserve	40	51,448	51,447
Retained earnings	41	81,860	70,557
Total equity attributable to equity shareholders of the Bank		265,532	250,455
Non-controlling interests		643	613
Total equity		266,175	251,068
Total liabilities and equity		4,033,546	4,020,042

Approved and authorised for issue by the board of directors on 25 August 2017.

Tang Shuangning
Chairman of the Board
of Directors
Non-executive Director

Zhang Jinliang
President
Executive Director

Xie Rong
Independent Non-executive
Director

The notes on pages 73 to 180 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	Attributable to equity shareholders of the Bank								Non-controlling interests	Total
		Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2017		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the period:											
Net income		-	-	-	-	-	-	16,939	16,939	33	16,972
Other comprehensive income	39	-	-	-	(1,388)	-	-	-	(1,388)	-	(1,388)
Equity of convertible bonds		-	5,161	-	-	-	-	-	5,161	-	5,161
Appropriation of profit:	41										
- Appropriation to general reserve		-	-	-	-	-	1	(1)	-	-	-
- Dividends to common shareholders		-	-	-	-	-	-	(4,575)	(4,575)	(3)	(4,578)
- Dividends to preference shareholders		-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)
Balance at 30 June 2017		46,679	35,108	33,365	(879)	17,951	51,448	81,860	265,532	643	266,175
Balance at 1 January 2016		46,679	19,965	33,365	3,929	14,964	40,271	64,320	223,493	554	224,047
Changes in equity for the period:											
Net income		-	-	-	-	-	-	16,439	16,439	29	16,468
Other comprehensive income		-	-	-	(658)	-	-	-	(658)	-	(658)
Appropriation of profit:											
- Appropriation to general reserve		-	-	-	-	-	18	(18)	-	-	-
- Dividends to common shareholders		-	-	-	-	-	-	(8,869)	(8,869)	-	(8,869)
- Dividends to preference shareholders		-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)
Balance at 30 June 2016		46,679	19,965	33,365	3,271	14,964	40,289	70,812	229,345	583	229,928

	Note III	Attributable to equity shareholders of the Bank								Non-controlling interests	Total
		Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2016		46,679	19,965	33,365	3,929	14,964	40,271	64,320	223,493	554	224,047
Changes in equity for the year:											
Net income		-	-	-	-	-	-	30,329	30,329	59	30,388
Other comprehensive income	39	-	-	-	(3,420)	-	-	-	(3,420)	-	(3,420)
Capital injection by preference shareholders		-	9,982	-	-	-	-	-	9,982	-	9,982
Appropriation of profit:	41										
- Appropriation to surplus reserve		-	-	-	-	2,987	-	(2,987)	-	-	-
- Appropriation to general reserve		-	-	-	-	-	11,176	(11,176)	-	-	-
- Dividends to common shareholders		-	-	-	-	-	-	(8,869)	(8,869)	-	(8,869)
- Dividends to preference shareholders		-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)
Balance at 31 December 2016		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068

The notes on pages 73 to 180 form part of these financial statements.

Unaudited Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2017	2016
Cash flows from operating activities		
Net profit	16,972	16,468
<i>Adjustments for:</i>		
Impairment losses on assets	10,030	9,956
Depreciation and amortisation	1,065	1,093
Unwinding of discount	(468)	(417)
Unrealised foreign exchange losses/(gains)	222	(213)
Net losses on disposal of investment securities	76	77
Net gains on disposal of trading securities	(7)	(87)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	1,337	(459)
Interest expense on debt securities issued	9,982	4,782
Net losses on disposal of fixed assets	2	1
Income tax	5,032	5,244
	44,243	36,445
<i>Changes in operating assets</i>		
Net decrease/(increase) in deposits with the central bank, banks and other financial institutions	55,013	(37,519)
Net decrease/(increase) in placements with banks and other financial institutions	17,854	(12,208)
Net increase in loans and advances to customers	(174,668)	(195,831)
Net (increase)/decrease in financial assets held under resale agreements	(30,264)	101,790
Net increase in other operating assets	(23,993)	(26,691)
	(156,058)	(170,459)
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in deposits from banks and other financial institutions	(310,988)	189,440
Net increase in placements from banks and other financial institutions	26,265	20,445
Net (decrease)/increase in financial assets sold under repurchase agreements	(27,122)	6,777
Net increase in amount due to central bank	30,500	49,160
Net increase in deposits from customers	150,416	183,526
Income tax paid	(6,229)	(8,140)
Net increase in other operating liabilities	8,874	7,325
	(128,284)	448,533
Net cash flows (used in)/from operating activities	(240,099)	314,519
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	434,722	323,854
Proceeds from disposal of fixed assets and other assets	19	6
Payments on acquisition of investments	(363,678)	(679,009)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(1,118)	(1,036)
Net cash flows from/(used in) investing activities	69,945	(356,185)

The notes on pages 73 to 180 form part of these financial statements.

Unaudited Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2017	2016
Cash flows from financing activities			
Net proceeds from issue of new debt securities		123,667	130,501
Interest paid on debt securities issued		(10,707)	(6,141)
Dividends paid		(1,060)	(1,060)
Net cash flows from financing activities		111,900	123,300
Effect of foreign exchange rate changes on cash and cash equivalents		(1,906)	617
Net (decrease)/increase in cash and cash equivalents	45(a)	(60,160)	82,251
Cash and cash equivalents as at 1 January		241,507	121,964
Cash and cash equivalents as at 30 June	45(b)	181,347	204,215
Interest received		76,850	66,765
Interest paid (excluding interest expense on debt securities issued)		(36,888)	(32,318)

The notes on pages 73 to 180 form part of these financial statements.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

I Background Information

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (“the PRC”) on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) No. B0007H111000001 and is issued the business license of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, P. R. China.

The principal activities of the Bank and its subsidiaries (Note III 21) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the China Banking Regulatory Commission (the “CBRC”). The Bank mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 30 provinces, autonomous regions, municipalities in mainland China, Hong Kong and Seoul in South Korea as at 30 June 2017.

These financial statements have been approved by the Board of Directors on 25 August 2017.

II Basis of Preparation

1 Compliance with International Financial Reporting Standards (“IFRSs”)

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2016.

2 Use of estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group’s accounting estimates are consistent with those adopted in the Group’s financial statements for the year ended 31 December 2016.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

II Basis of Preparation (continued)

3 Significant accounting policies

Standards, amendments and interpretations effective in 2017

On 1 January 2017, the Group adopted the following new standards, amendments and interpretations.

IAS 7 Amendments	<i>Statement of Cash Flow</i>
IAS 12 Amendments	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016) IFRS 12	<i>Disclosure of Interests in Other Entities</i>

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements to IFRSs 2014-2016 cycle:

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

II Basis of Preparation (continued)

3 Significant accounting policies (continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017:

		Effective for annual periods beginning on or after
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018
IFRS 2 Amendments	<i>Share-based Payment</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10, IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Has not yet decided (effective date has been deferred indefinitely)
IAS 28	<i>Investments in Associates and Joint Ventures</i>	1 January 2018
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018

IFRS 9 – Financial Instruments

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

The Group has established a work stream. The key responsibilities of the work stream include analysing IFRS 9 methodology and accounting policy, developing the expected credit losses model, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The work stream manages the project governance structure, assures the involvement of the pertinent responsible teams, and monitors the progress of the implementation work across the Group. The Group anticipates the overall implementation preparation to be completed by the end of 2017. Currently the Group is carrying out the preparatory work as planned, and in the process of evaluating the impact of IFRS 9 implementation on the Group's consolidated financial statements.

The Group is in the process of assessing the impact of these other new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

1 Net interest income

	Note	For the six months ended 30 June	
		2017	2016
Interest income arising from			
Deposits with the central bank		2,627	2,600
Deposits with banks and other financial institutions		2,785	1,894
Placements with banks and other financial institutions		2,438	2,255
Loans and advances to customers	(a)		
– Corporate loans and advances		25,702	24,030
– Personal loans and advances		15,339	12,999
– Discounted bills		603	1,558
Finance lease receivables		1,326	892
Financial assets held under resale agreements		996	2,078
Investments		26,883	21,304
Sub-total		78,699	69,610
Interest expenses arising from			
Due to the central bank		3,098	561
Deposits from banks and other financial institutions		12,873	8,212
Placements from banks and other financial institutions		1,572	847
Deposits from customers			
– Corporate customers		12,580	13,307
– Individual customers		1,905	2,068
– Structured deposits from corporate customers		3,577	3,365
– Structured deposits from individual customers		2,154	2,909
Financial assets sold under repurchase agreements		575	934
Debt securities issued	(b)	9,982	4,782
Sub-total		48,316	36,985
Net interest income		30,383	32,625

Note:

(a) The interest income arising from impaired financial assets for the period ended 30 June 2017 amounted to RMB468 million (Six months ended 30 June 2016: RMB417 million).

(b) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

2 Net fee and commission income

	For the six months ended 30 June	
	2017	2016
Fee and commission income		
Bank card service fees	9,420	6,434
Wealth management service fees	2,256	3,646
Agency services fees	1,561	982
Custody and other fiduciary business fees	964	912
Underwriting and advisory fees	903	762
Settlement and clearing fees	686	541
Acceptance and guarantee fees	481	466
Others	677	859
Sub-total	16,948	14,602
Fee and commission expense		
Bank card transaction fees	683	537
Settlement and clearing fees	51	43
Others	222	124
Sub-total	956	704
Net fee and commission income	15,992	13,898

3 Net trading (losses)/gains

	For the six months ended 30 June	
	2017	2016
Trading financial instruments		
– Derivatives	(1,285)	425
– Debt securities	(140)	131
Sub-total	(1,425)	556
Financial instruments designated at fair value through profit or loss	95	(10)
Total	(1,330)	546

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

4 Net losses arising from investment securities

	For the six months ended 30 June	
	2017	2016
Net gains on disposal of available-for-sale financial assets	68	13
Net revaluation losses reclassified from other comprehensive income on disposal	(147)	(90)
Net gains on disposal of held-to-maturity investments	3	–
Total	(76)	(77)

5 Operating expenses

	For the six months ended 30 June	
	2017	2016
Staff costs		
– Salaries and bonuses	6,223	6,126
– Pension and annuity	759	611
– Housing allowances	331	307
– Staff welfares	140	118
– Others	879	833
Sub-total	8,332	7,995
Premises and equipment expenses		
– Rental and property management expenses	1,305	1,225
– Depreciation of fixed assets	709	737
– Amortisation of other long-term assets	210	212
– Amortisation of intangible assets	146	144
Sub-total	2,370	2,318
Tax and surcharges	543	2,472
Other general and administrative expenses	3,106	2,628
Total	14,351	15,413

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

6 Impairment losses on assets

	For the six months ended 30 June	
	2017	2016
Loans and advances to customers	9,305	9,330
Debt securities classified as receivables	361	–
Available-for-sale financial assets	190	34
Finance lease receivables	59	332
Held-to-maturity investments	(10)	102
Others	125	158
Total	10,030	9,956

7 Income tax

(a) Income tax:

	Note III	For the six months ended 30 June	
		2017	2016
Current tax		6,030	4,620
Deferred tax	24 (b)	(846)	407
Adjustments for prior year		(152)	217
Total		5,032	5,244

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

	Note	For the six months ended 30 June	
		2017	2016
Profit before tax		22,004	21,712
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		5,501	5,428
Non-deductible expenses			
– Staff costs		24	24
– Impairment losses on assets		817	300
– Others		28	42
Sub-total		869	366
Tax free income	(i)	(1,186)	(767)
Sub-total		5,184	5,027
Adjustments for prior year		(152)	217
Income tax		5,032	5,244

Note:

(i) Tax free income mainly includes income of China treasury bonds and dividend of funds.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

8 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2017	2016
Profit attributable to equity holders of the Bank	16,939	16,439
Less: dividends on preference shares declared	1,060	1,060
Profit attributable to ordinary shareholders of the Bank	15,879	15,379
Weighted average number of ordinary shares in issue (in million shares)	46,679	46,679
Basic earnings per share (in RMB per share)	0.34	0.33

Weighted average number of ordinary shares in issue (in million shares)

	For the six months ended 30 June	
	2017	2016
Issued ordinary shares as at 1 January	46,679	46,679
Weighted average number of ordinary shares in issue (in million shares)	46,679	46,679

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	For the six months ended 30 June	
	2017	2016
Profit attributable to ordinary shareholders of the Bank	15,879	15,379
Add: interest expense on convertible bonds, net of tax	244	–
Profit used to determine diluted earnings per share	16,123	15,379
Weighted average number of ordinary shares in issue (in million shares)	46,679	46,679
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	4,030	–
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	50,709	46,679
Diluted earnings per share (in RMB per share)	0.32	0.33

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

9 Cash and deposits with the central bank

	Note	30 June 2017	31 December 2016
Cash on hand		5,739	6,667
Deposits with the central bank			
– Statutory deposit reserves	(a)	302,584	303,772
– Surplus deposit reserves	(b)	29,667	66,255
– Foreign currency risk reserves	(c)	1,469	1,433
– Fiscal deposits		6,071	3,493
Sub-total		339,791	374,953
Total		345,530	381,620

Note:

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

	30 June 2017	31 December 2016
Reserve ratio for RMB deposits	14.5%	15.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business. The group China mainland subsidiary of RMB deposit reserve deposit ratio stipulated by people's Bank.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places foreign currency risk reserves with the People's Bank of China in accordance with relevant regulations. As at 30 June 2017, the foreign currency risk reserve ratio was 20% (31 December 2016:20%).

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

10 Deposits with banks and other financial institutions**Analysed by type and location of counterparty**

	30 June 2017	31 December 2016
Deposits in mainland China		
– Banks	107,685	224,635
– Other financial institutions	288	278
Sub-total	107,973	224,913
Deposits outside mainland China		
– Banks	9,976	7,754
Total	117,949	232,667
Less: Provision for impairment losses	(30)	(37)
Net balances	117,919	232,630

11 Placements with banks and other financial institutions**Analysed by type and location of counterparty**

	30 June 2017	31 December 2016
Placements in mainland China		
– Banks	32,198	10,874
– Other financial institutions	89,800	97,520
Sub-total	121,998	108,394
Placements outside mainland China		
– Banks	22,091	17,914
Total	144,089	126,308
Less: Provision for impairment losses	(3)	(3)
Net balances	144,086	126,305

12 Financial assets at fair value through profit or loss

	Note	30 June 2017	31 December 2016
Debt securities held for trading	(a)	20,756	7,743
Financial assets designated at fair value through profit or loss	(b)	48	91
Total		20,804	7,834

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

12 Financial assets at fair value through profit or loss (continued)

(a) Debt securities held for trading

Note	30 June 2017	31 December 2016
Issued by the following governments or institutions:		
In mainland China		
– Government	1,547	70
– Banks and other financial institutions	690	1,793
– Other institutions (i)	17,525	5,395
Sub-total	19,762	7,258
Outside mainland China		
– Government	169	20
– Banks and other financial institutions	277	68
– Other institutions	548	397
Sub-total	994	485
Total (ii)	20,756	7,743
Listed		
– of which listed in Hong Kong	751	445
Unlisted	19,701	7,209
Total	20,756	7,743

Note:

(i) As at 30 June 2017, debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(ii) No investments were subject to material restrictions on realisation.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

12 Financial assets at fair value through profit or loss (continued)

(b) Financial assets designated at fair value through profit or loss

	30 June 2017	31 December 2016
Precious metal	21	43
Fixed interest rate personal mortgage loans	27	48
Total	48	91

For fixed interest rate personal mortgage loans, the Group used interest rate swap to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

13 Derivatives

Derivative financial instruments included forward, swap, futures and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the year, they do not represent exposure at risk.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

13 Derivatives (continued)

(a) Analysed by nature of contract

	30 June 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	140,131	395	(611)
– Interest rate futures	4,262	2	–
Currency derivatives			
– Foreign exchange forward	9,138	104	(79)
– Foreign exchange swap	365,269	1,607	(2,119)
– Foreign exchange option	3,813	34	(6)
Total	522,613	2,142	(2,815)

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	92,013	413	(356)
– Interest rate futures	500	1	–
Currency derivatives			
– Foreign exchange forward	10,329	140	(160)
– Foreign exchange swap	346,885	4,394	(3,852)
– Foreign exchange option	49	2	–
Total	449,776	4,950	(4,368)

(b) Analysed by credit risk-weighted amounts

	30 June 2017	31 December 2016
Counterparty default risk-weighted assets		
– Interest rate derivatives	14	24
– Currency derivatives	744	871
Credit value adjustment	253	432
Total	1,011	1,327

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC in 2012.

As at 30 June 2017, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

14 Financial assets held under resale agreements**(a) Analysed by type and location of counterparty**

	30 June 2017	31 December 2016
In mainland China		
– Banks	31,594	42,646
– Other financial institutions	65,649	24,354
Total	97,243	67,000

(b) Analysed by type of security held

	30 June 2017	31 December 2016
Bonds		
– Government bonds	6,619	21,927
– Other debt securities	83,382	45,073
Sub-total	90,001	67,000
Bank acceptances	7,242	–
Total	97,243	67,000

15 Interests receivable

	30 June 2017	31 December 2016
Interests receivable from investments	18,198	17,654
Interests receivable from loans and advances to customers	6,673	5,251
Interests receivable from deposits and placements with banks and other financial institutions	1,208	1,875
Other interests receivable	997	596
Total	27,076	25,376
Less: Provision for impairment losses	(48)	(37)
Net balances	27,028	25,339

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers

(a) Analysed by nature

	30 June 2017	31 December 2016
Corporate loans and advances	1,188,851	1,075,974
Personal loans and advances		
– Personal housing mortgage loans	340,998	290,114
– Personal business loans	127,556	132,376
– Personal consumption loans	32,122	28,315
– Credit cards	247,728	212,326
Sub-total	748,404	663,131
Discounted bills	27,193	56,173
Gross loans and advances to customers	1,964,448	1,795,278
Less: Provision for impairment losses		
– Individually assessed	(12,021)	(11,285)
– Collectively assessed	(35,246)	(32,349)
Total provision for impairment losses	(47,267)	(43,634)
Net loans and advances to customers	1,917,181	1,751,644

At financial reporting date, part of the above loans and advances to customers was pledged for repurchase agreements, see Note III 26(a).

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers (continued)**(b) Analysed by economic sector**

	30 June 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	243,254	12.38%	75,703
Water, environment and public utility management	198,254	10.09%	100,170
Real estate	148,220	7.55%	94,529
Leasing and commercial services	117,654	5.99%	49,129
Wholesale and retail trade	115,869	5.90%	42,405
Transportation, storage and postal services	93,410	4.76%	39,960
Construction	67,658	3.44%	23,023
Finance	55,111	2.81%	2,615
Others	149,421	7.60%	52,591
Sub-total of corporate loans and advances	1,188,851	60.52%	480,125
Personal loans and advances	748,404	38.10%	476,073
Discounted bills	27,193	1.38%	22,159
Gross loans and advances to customers	1,964,448	100.00%	978,357
Less: Provision for impairment losses			
– Individually assessed	(12,021)		
– Collectively assessed	(35,246)		
Total provision for impairment losses	(47,267)		
Net loans and advances to customers	1,917,181		

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	235,514	13.12%	69,758
Water, environment and public utility management	160,657	8.95%	78,141
Real estate	126,717	7.06%	91,907
Wholesale and retail trade	112,165	6.25%	43,138
Leasing and commercial services	95,554	5.32%	46,694
Transportation, storage and postal services	92,260	5.14%	37,362
Construction	62,480	3.48%	20,526
Finance	51,275	2.86%	2,784
Others	139,352	7.75%	48,550
Sub-total of corporate loans and advances	1,075,974	59.93%	438,860
Personal loans and advances	663,131	36.94%	426,392
Discounted bills	56,173	3.13%	47,270
Gross loans and advances to customers	1,795,278	100.00%	912,522
Less: Provision for impairment losses			
– Individually assessed	(11,285)		
– Collectively assessed	(32,349)		
Total provision for impairment losses	(43,634)		
Net loans and advances to customers	1,751,644		

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at the end of the year and during the period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers are as follows:

	30 June 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing	11,737	(6,281)	(7,136)	3,675	515
Water, environment and public utility management	20	(5)	(2,216)	405	–

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	10,310	(5,509)	(7,303)	8,900	1,270

(c) Analysed by type of collateral

	30 June 2017	31 December 2016
Unsecured loans	529,013	491,329
Guaranteed loans	457,078	391,427
Secured loans		
– By tangible assets other than monetary assets	744,758	695,272
– By monetary assets	233,599	217,250
Gross loans and advances to customers	1,964,448	1,795,278
Less: Provision for impairment losses		
– Individually assessed	(12,021)	(11,285)
– Collectively assessed	(35,246)	(32,349)
Total provision for impairment losses	(47,267)	(43,634)
Net loans and advances to customers	1,917,181	1,751,644

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

16 Loans and advances to customers (continued)

(d) Overdue loans analysed by overdue period

	30 June 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,996	4,699	1,117	41	10,853
Guaranteed loans	4,058	5,027	6,571	920	16,576
Secured loans					
– By tangible assets other than monetary assets	5,311	5,644	6,776	364	18,095
– By monetary assets	902	872	2,408	48	4,230
Total	15,267	16,242	16,872	1,373	49,754
As a percentage of gross loans and advances to customers	0.78%	0.82%	0.86%	0.07%	2.53%

	31 December 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,987	3,684	1,086	39	9,796
Guaranteed loans	4,469	7,051	5,122	522	17,164
Secured loans					
– By tangible assets other than monetary assets	6,141	6,194	6,596	370	19,301
– By monetary assets	228	3,951	1,079	21	5,279
Total	15,825	20,880	13,883	952	51,540
As a percentage of gross loans and advances to customers	0.88%	1.17%	0.77%	0.05%	2.87%

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

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	30 June 2017				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,933,387	8,635	22,426	1,964,448	1.58%
Less: Provision for impairment losses	(30,191)	(5,055)	(12,021)	(47,267)	
Net loans and advances to customers	1,903,196	3,580	10,405	1,917,181	

	31 December 2016				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,766,576	7,290	21,412	1,795,278	1.60%
Less: Provision for impairment losses	(28,591)	(3,758)	(11,285)	(43,634)	
Net loans and advances to customers	1,737,985	3,532	10,127	1,751,644	

Note:

- (i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (ii) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
- Individually (including corporate loans and advances which are impaired); or
 - Collectively (including personal loans which are impaired).

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

16 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	30 June 2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January	(28,591)	(3,758)	(11,285)	(43,634)
Charge for the period	(1,815)	(2,324)	(5,984)	(10,123)
Release for the period	215	–	603	818
Recoveries	–	(338)	(115)	(453)
Unwinding of discount	–	–	468	468
Disposal	–	–	3,621	3,621
Write-offs	–	1,365	671	2,036
As at 30 June	(30,191)	(5,055)	(12,021)	(47,267)

	31 December 2016			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at 1 January	(25,667)	(2,369)	(10,083)	(38,119)
Charge for the year	(2,924)	(3,903)	(15,971)	(22,798)
Release for the year	–	–	687	687
Recoveries	–	(489)	(258)	(747)
Unwinding of discount	–	–	876	876
Disposal	–	–	10,835	10,835
Write-offs	–	3,003	2,629	5,632
As at 31 December	(28,591)	(3,758)	(11,285)	(43,634)

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers (continued)**(g) Analysed by geographical sector**

	30 June 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	378,705	19.28%	191,952
Central	334,844	17.05%	202,112
Bohai Rim	324,117	16.50%	166,027
Western	278,979	14.20%	170,255
Pearl River Delta	228,466	11.63%	165,627
Northeastern	115,931	5.90%	74,488
Overseas	55,271	2.81%	7,501
Head Office	248,135	12.63%	395
Gross loans and advances to customers	1,964,448	100.00%	978,357

	31 December 2016		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	352,631	19.64%	183,215
Central	303,996	16.93%	178,952
Bohai Rim	298,715	16.64%	147,435
Western	260,592	14.52%	163,907
Pearl River Delta	213,533	11.89%	157,849
Northeastern	109,300	6.09%	71,241
Overseas	44,175	2.46%	9,923
Head Office	212,336	11.83%	–
Gross loans and advances to customers	1,795,278	100.00%	912,522

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector (continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	30 June 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	5,377	(2,614)	(4,917)
Yangtze River Delta	5,091	(2,278)	(6,830)
Bohai Rim	4,820	(2,353)	(6,551)
Western	4,779	(2,062)	(5,396)
Central	4,436	(1,703)	(5,132)

	31 December 2016		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	4,663	(2,036)	(4,987)
Yangtze River Delta	6,520	(3,299)	(6,184)
Bohai Rim	3,666	(1,699)	(6,024)
Western	4,599	(1,901)	(5,072)
Central	4,654	(1,901)	(4,561)

The definitions of the regional distributions are set out in Note III 47(b).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

16 Loans and advances to customers (continued)**(h) Rescheduled loans and advances to customers**

	30 June 2017	31 December 2016
Rescheduled loans and advances to customers	15,999	17,380
Of which: Rescheduled loans and advances to customers overdue more than 90 days	902	1,240

17 Finance lease receivables

	30 June 2017	31 December 2016
Minimum finance lease receivables	65,209	64,244
Less: unearned finance lease income	(7,249)	(7,175)
Present value of minimum lease receivable	57,960	57,069
Less: impairment losses		
Of which: Individually assessed	(503)	(403)
Collectively assessed	(1,065)	(1,106)
Net balance	56,392	55,560

Minimum finance lease receivables analysed by remaining period is listed as follows:

	30 June 2017	31 December 2016
Less than 1 year (inclusive)	18,002	18,053
1 year to 2 years (inclusive)	13,753	12,616
2 year to 3 years (inclusive)	10,911	10,462
More than 3 years	22,543	23,113
Total	65,209	64,244

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

18 Available-for-sale financial assets

	Note	30 June 2017	31 December 2016
Available-for-sale debt investments	(a)	145,050	237,788
Available-for-sale equity investments	(b)	570	549
Available-for-sale fund investments and others	(c)	211,251	186,794
Total		356,871	425,131
Listed		12,986	37,391
– of which in Hong Kong		9,403	7,331
Unlisted		343,885	387,740
Total		356,871	425,131

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	Note	30 June 2017	31 December 2016
In mainland China			
– Government		26,648	75,981
– Banks and other financial institutions	(i)	25,744	51,688
– Other institutions	(ii)	82,653	101,600
Sub-total		135,045	229,269
Outside mainland China			
– Government		67	88
– Banks and other financial institutions		2,949	2,458
– Other institutions		6,989	5,973
Sub-total		10,005	8,519
Total	(iii)	145,050	237,788

Note:

- (i) Debt securities issued by banks and other financial institutions mainly represent debt securities and interbank deposits issued by banks and other financial institutions in the mainland China.
- (ii) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (iii) As at the end of the reporting period, part of the available-for-sale financial assets were pledged for repurchase agreements and derivative contracts (see Note III 26(a)).
- (iv) As at the end of the reporting period, the provision of the available-for-sale debt instruments impairment losses of the Group was RMB935 million (as at 31 December 2016: RMB745 million).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

18 Available-for-sale financial assets (continued)**(b) Available-for-sale equity investments**

	Note	30 June 2017	31 December 2016
At cost			
As at 1 January		401	401
Additions for the period/year		28	–
Reductions for the period/year		(4)	–
As at the end of the period/year		425	401
Less: Provision for impairment losses		(1)	(1)
Sub-total	(i)	424	400
At fair value		146	149
Total		570	549

Note:

- (i) Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

(c) Available-for-sale fund investments and others

	30 June 2017	31 December 2016
Measured as fair value		
In mainland China – Banks and other financial institutions	211,251	186,794
Total	211,251	186,794

(d) Movements of allowance for impairment losses of available-for-sale financial assets during the period are as follows:

	Available- for-sale debt investments	Available- for-sale equity investments	Total
At 1 January 2016	171	1	172
At 31 December 2016 and 1 January 2017	745	1	746
Charge for the period	190	–	190
At 30 June 2017	935	1	936

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

19 Held-to-maturity investments

Debt securities analysed by type and location:

	Note	30 June 2017	31 December 2016
In mainland China			
– Government		245,011	187,965
– Banks and other financial institutions		93,087	56,567
– Other institutions	(a)	9,691	8,576
Sub-total		347,789	253,108
Outside mainland China			
– Government		403	410
– Banks and other financial institutions		1,235	1,353
– Other institutions		3,080	2,741
Sub-total		4,718	4,504
Total	(b)	352,507	257,612
Less: Provision for impairment losses		(102)	(112)
Net balances		352,405	257,500
Listed		4,593	4,439
– of which in Hong Kong		2,645	2,722
Unlisted		347,812	253,061
Net balances		352,405	257,500
Fair value		347,407	258,891

Note:

- (a) As at the end of the reporting period, debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (b) As at the end of the reporting period, part of the held-to-maturity investments were pledged as securities for repurchase agreements and time deposits transactions (see Note III 26(a)).
- (c) The Group disposed a notional amount of RMB650 million prior to their maturity dates for the six months period ended 30 June 2017, which account for 0.19% of the portfolio before disposal, and did not dispose any held-to-maturity debt investments and in 2016.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

20 Debt securities classified as receivables

	Note	30 June 2017	31 December 2016
Wealth management products issued by financial institution	(a)	24,236	150,460
Beneficiary interests in trust and other plans	(b)	490,032	476,623
Others		2,326	2,326
Total		516,594	629,409
Less: Provision for impairment losses		(2,092)	(1,731)
Net balances		514,502	627,678

Note:

- (a) Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.
- (b) Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 30 June 2017, part of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China, the notional amount of which was RMB128 million (31 December 2016: RMB636 million). The fair values of the above mentioned investments approximate to their carrying amount.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

21 Investments in subsidiaries

	Note	30 June 2017	31 December 2016
Everbright Financial Leasing Co., Ltd.	(a)	2,700	2,700
CEB International Investment Co., Ltd.	(b)	1,379	494
Shaoshan Everbright Village Bank Co., Ltd	(c)	105	105
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	(d)	70	70
Total		4,254	3,369

Note:

- (a) *Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB3,700 million. The principal activity of Everbright Financial Leasing is the provision of leasing services. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing.*
- (b) *CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. The Bank holds 100% of equity interests and voting rights of CEBI. CEB Bank increased its investment in CEBI on 25 April 2017, with capital of HKD1 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the capital. After the capital increase, the registered capital of CEBI accumulated to HKD1.6 billion, which equals to RMB1,379 million approximately.*
- (c) *Shaoshan Everbright Village Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.*
- (d) *Jiangsu Huai'an Everbright Village Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.*

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

22 Fixed Assets

	Premises (Note(i))	Aircraft and vessels (Note(ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2017	11,170	2,266	949	5,731	3,536	23,652
Additions	8	–	716	125	58	907
Transfers out	–	–	(11)	–	–	(11)
Disposals	–	–	–	(31)	(13)	(44)
Exchange differences on translation of financial statements of overseas subsidiaries	–	(53)	–	–	(1)	(54)
As at 30 June 2017	11,178	2,213	1,654	5,825	3,580	24,450
Accumulated depreciation						
As at 1 January 2017	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Charge for the period	(175)	(40)	–	(344)	(150)	(709)
Disposals	–	–	–	28	12	40
Exchange differences on translation of financial statements of overseas subsidiaries	–	2	–	–	1	3
As at 30 June 2017	(3,170)	(88)	–	(4,265)	(2,408)	(9,931)
Provision for impairment						
As at 1 January 2017	(159)	–	–	–	–	(159)
As at 30 June 2017	(159)	–	–	–	–	(159)
Net book value						
As at 30 June 2017	7,849	2,125	1,654	1,560	1,172	14,360

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

22 Fixed Assets (continued)

	Premises (Note(i))	Aircraft (Note(ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2016	11,117	–	900	5,325	3,420	20,762
Additions	53	2,266	52	536	164	3,071
Transfers out	–	–	(3)	–	–	(3)
Disposals	–	–	–	(130)	(48)	(178)
As at 31 December 2016	11,170	2,266	949	5,731	3,536	23,652
Accumulated depreciation						
As at 1 January 2016	(2,630)	–	–	(3,376)	(1,951)	(7,957)
Charge for the year	(365)	(50)	–	(692)	(354)	(1,461)
Disposals	–	–	–	119	34	153
As at 31 December 2016	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Provision for impairment						
As at 1 January 2016	(159)	–	–	–	–	(159)
As at 31 December 2016	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2016	8,016	2,216	949	1,782	1,265	14,228

Note:

- (i) As at 30 June 2017, title deeds were not yet finalised for the premises with a carrying amount of RMB152 million (31 December 2016: RMB156 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 30 June 2017, Everbright Financial Leasing Co., Ltd., the group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft and vessels" to third parties under operating lease arrangements, with a net book value of RMB2.125 billion (as at 31 December 2016: RMB2,216 million).

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

	30 June 2017	31 December 2016
Held in mainland China		
– Medium term leases (10 – 50 years)	7,800	7,967
– Short term leases (less than 10 years)	49	49
Total	7,849	8,016

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

23 Goodwill

	30 June 2017	31 December 2016
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed an “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

24 Deferred tax assets and liabilities**(a) Analysed by nature**

	30 June 2017		31 December 2016	
	Temporary Difference	Deferred Tax assets /(liabilities)	Temporary Difference	Deferred Tax assets /(liabilities)
Deferred income tax assets	27,686	6,921	22,489	5,622
Deferred income tax liabilities	-	-	-	-
Net balances	27,686	6,921	22,489	5,622

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

24 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Net losses/ (gains) from fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets
1 January 2017	4,512	(324)	1,434	5,622
Recognised in profit or loss	(241)	334	753	846
Recognised in other comprehensive Income	–	453	–	453
30 June 2017	4,271	463	2,187	6,921

	Provision for impairment losses Note(i)	Net losses/ (gains) from fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets
1 January 2016	3,288	(1,408)	2,043	3,923
Recognised in profit or loss	1,224	(59)	(609)	556
Recognised in other comprehensive income	–	1,143	–	1,143
31 December 2016	4,512	(324)	1,434	5,622

Note:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net losses/(gains) on fair value changes of financial instruments are subject to tax when realised.
- (iii) Unrecognised deferred tax assets

As at 30 June 2017, the Group has not recognised deferred tax assets of RMB5,895 million (31 December 2016: RMB5,157 million) for provision of impairment losses amounting to RMB23,579 million (31 December 2016: RMB20,629 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

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25 Other assets

	Note	30 June 2017	31 December 2016
Precious metal		41,975	22,677
Other receivables	(a)	8,961	6,162
Fixed assets purchase prepayment		1,786	1,187
Long-term deferred expense		1,227	1,337
Intangible assets		802	844
Repossessed assets		451	389
Land use rights		103	106
Others		3,576	3,018
Total		58,881	35,720

Note:

(a) Other receivables and prepayments mainly include items in the process of clearing and settlement.

26 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills and debt securities. They are mainly pledged for repurchase agreements, time deposits and derivative contracts. The carrying amount of the financial assets pledged as securities as at 30 June 2017 is RMB47,307 million (31 December 2016: RMB72,500 million).

(b) Collaterals received

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions. As at 30 June 2017, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB1,790.83 million (31 December 2016: Nil). As at 30 June 2017, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2016: Nil). These transactions are conducted under standard terms in the normal course of business.

III Notes to the Unaudited Condensed Consolidated Financial Statements

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27 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Deposits in mainland China		
– Banks	120,371	344,988
– Other financial institutions	395,272	484,186
Sub-total	515,643	829,174
Deposits outside mainland China		
– Banks	3,723	1,180
Total	519,366	830,354

28 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2017	31 December 2016
Placements in mainland China		
– Banks	76,388	61,386
– Other financial institutions	4	4
Sub-total	76,392	61,390
Placements outside mainland China		
– Banks	45,374	34,111
Total	121,766	95,501

29 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In mainland China		
– Banks	11,330	41,195
– Other financial institutions	2,764	–
Total	14,094	41,195

(b) Analysed by collateral

	30 June 2017	31 December 2016
Bank acceptances	2,814	7,610
Debt securities	11,280	33,585
Total	14,094	41,195

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(continued)

30 Deposits from customers

	Note	30 June 2017	31 December 2016
At amortised cost			
Demand deposits			
– Corporate customers		669,029	628,167
– Individual customers		185,209	183,856
Sub-total		854,238	812,023
Time deposits			
– Corporate customers		685,137	639,629
– Individual customers		113,213	115,941
Sub-total		798,350	755,570
Pledged deposits			
– Acceptances		145,972	173,385
– Letters of guarantees		23,045	20,763
– Letters of credit		14,053	9,980
– Others		19,806	14,249
Sub-total		202,876	218,377
Other deposits		119,974	108,027
Total deposits from customers at amortised cost		1,975,438	1,893,997
At fair value			
Structured deposits	(i)		
– Corporate customers		221,529	167,967
– Individual customers		74,336	58,923
Total deposits from customers at fair value		295,865	226,890
Total		2,271,303	2,120,887

Note:

- (i) Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception. There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the six months ended 30 June 2017 and the year ended 31 December 2016.

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31 Accrued staff costs

	Note	30 June 2017	31 December 2016
Salary and welfare payable		7,098	6,992
Pension payable	(a)	153	126
Supplementary retirement benefits payable	(b)	658	658
Total		7,909	7,776

Note:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the period.

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

32 Taxes payable

	30 June 2017	31 December 2016
Income tax payable	2,390	2,741
Value added tax payable	1,770	1,416
Others	355	344
Total	4,515	4,501

33 Interests payable

	30 June 2017	31 December 2016
Deposits from customers	27,075	26,890
Debt securities issued	1,006	1,731
Others	6,193	4,955
Total	34,274	33,576

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

34 Debt securities issued

	Note	30 June 2017	31 December 2016
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	30,757	32,800
Tier-two capital bonds	(c)	44,169	16,200
Convertible bonds issued	(d)	25,070	–
Interbank deposits issued	(e)	405,131	347,067
Certificates of deposits issued	(f)	9,040	6,282
Medium term notes	(g)	10,139	3,451
Total		531,006	412,500

(a) Subordinated debts

	Note	30 June 2017	31 December 2016
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

(i) Fixed rate subordinated debts with a nominal value of RMB6.7 billion, a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum.

(ii) As at 30 June 2017, the fair value of the total subordinated debt securities issued approximates to RMB6,827 million (31 December 2016: RMB6,957 million).

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

34 Debt securities issued (continued)

(b) Financial bonds

	Note	30 June 2017	31 December 2016
Financial fixed rate bonds maturing in March 2017	(i)	–	20,000
Financial floating rate bonds maturing in March 2017	(ii)	–	10,000
Financial fixed rate bonds maturing in June 2018	(iii)	2,800	2,800
Financial fixed rate bonds maturing in February 2020	(iv)	27,957	–
Total		30,757	32,800

Note:

- (i) Fixed rate financial bonds with a nominal value of RMB20 billion, a term of five years were issued on 28 March 2012. The coupon rate is 4.20% per annum.
- (ii) Floating rate financial bonds with a nominal value of RMB10 billion, a term of five years were issued on 28 March 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.
- (iii) Fixed rate financial bonds with a nominal value of RMB3.50 billion, a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. AS at 30 June 2017, the Bank held RMB0.7 billion of these bonds.
- (iv) Fixed rate financial bonds with a nominal value of RMB28 billion, a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.
- (v) As at 30 June 2017, the fair value of the total financial bond securities issued approximates to RMB30,408 million (31 December 2016: RMB32,736 million).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

34 Debt securities issued (continued)

(c) Tier-two capital bonds

	Note	30 June 2017	31 December 2016
Fixed rate tier-two capital bonds maturing in June 2024	(i)	16,200	16,200
Fixed rate tier-two capital bonds maturing in March 2027	(ii)	27,969	–
Total		44,169	16,200

Note:

- (i) Fixed rate tier-two capital bonds with a nominal value of RMB16.2 billion, a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.
- (ii) Fixed rate tier-two capital bonds with a nominal value of RMB28.0 billion, a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.
- (iii) As at 30 June 2017, the fair value of the total tier-two capital bonds approximates to RMB44,270 million (31 December 2016: RMB16,881 million).

(d) Convertible bonds issued

	30 June 2017	31 December 2016
Fixed rate six years convertible bonds issued in March 2017	25,070	–

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

34 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

- (ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.
- (iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value.
- (iv) There is no interest paid by the Bank related to the convertible bonds for the period ended 30 June 2017 (2016: null).

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Liability component	Equity component Note III (37)	Total
Nominal value of convertible corporate bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Amortisation	308	–	308
Balance as at 30 June 2017	25,070	5,161	30,231

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

34 Debt securities issued (continued)

(e) Interbank deposits issued

As at 30 June 2017, the interbank deposits were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB398,633 million (31 December 2016: RMB342,860 million).

(f) Certificates of deposits issued

As at 30 June 2017, the certificates of deposits were issued and measured at amortised cost by the Bank's Hong Kong branch and Seoul branch. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	30 June 2017	31 December 2016
Medium term notes with fixed rate maturing in 8 March 2020	(i)	3,372	–
Medium term notes with fixed rate maturing in 13 June 2020	(ii)	3,391	–
Medium term notes with fixed rate maturing in 15 September 2019	(iii)	3,376	3,451
Total		10,139	3,451

Note:

- (i) Fixed rate medium term notes of USD500 million (i.e. RMB3,441 million) with a term of three years were issued by The Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.
- (ii) Floating rate medium term notes of USD500 million (i.e. RMB3,397 million) with a term of three years were issued by The Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.
- (iii) Fixed rate medium term notes of USD500 million (i.e. RMB3,331 million) with a term of three years were issued by The Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.
- (iv) As at 30 June 2017, the fair value of the medium term notes approximates to RMB10,120 million (31 December 2016: RMB3,440 million).

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

35 Other liabilities

	Note	30 June 2017	31 December 2016
Dividend payables		4,595	20
Deferred emoluments payment	(a)	4,321	4,440
Deferred income	(b)	3,449	2,903
Finance leases payable		3,381	3,618
Payment and collection clearance accounts		1,329	4,165
Bank Loans	(c)	1,032	2,387
Dormant accounts		343	319
Provisions	(d)	291	415
Others		24,082	13,049
Total		42,823	31,316

Note:

- (a) This represents deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans. As at 30 June 2017, the deferred emolument payable amounted to RMB4,321 million (31 December 2016: RMB4,440 million).
- (b) Deferred income primarily comprised the credit card income to be distributed.
- (c) As at 16 December 2016, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans with a terms for 5 years. Everbright Financial Leasing should repay capital with interest quarterly at a floating rate based on the Libor plus a margin of 150BP. As at 30 June 2017, the amount of the long-term bank loan is RMB454 million (31 December 2016: RMB516 million). As at 13 April 2017, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans with a terms for 3 years. Interest rates applicable to the same period of the people's Bank of China announced the same level of RMB lending rates within the financing period. As at 30 June 2017, the amount of the long-term bank loan is RMB578 million.
- (d) As at 30 June 2017, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB17 million (31 December 2016: RMB17 million).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

36 Share capital

The Bank's shareholding structure as at the end of the reporting period is as follows:

	30 June 2017	31 December 2016
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	6,869	6,869
Total	46,679	46,679

The H shares rank pari passu in all respects with the A shares including the right to receive dividends and distributions declared.

37 Other equity instrument

	Note III	30 June 2017	31 December 2016
Preference shares (Note (a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	34 (d)	5,161	–
Total		35,108	29,947

(a) Preference shares at the end of the reporting period

Issue date	Dividend rate	Issue price	Number of shares issued million	RMB million	Conversion condition
Everbright P1					
2015-6-19	5.30%	100 RMB/share	200	20,000	Mandatory conversion trigger events
Everbright P2					
2016-8-8	3.90%	100 RMB/share	100	10,000	Mandatory conversion trigger events
Sub-Total				30,000	
Less: Issuing costs				(53)	
Book value				29,947	

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

37 Other equity instrument (continued)

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance;

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread;

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of Convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Core Tier-one Capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Core Tier-one Capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to A shares, it could not be converted to Preference Shares again;

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

37 Other equity instrument (continued)**(b) Main Clauses (continued)****(vi) Redemption**

Subject to the prior approval of the CBRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in Preference shares outstanding

	1 January 2017		Additions for the period		30 June 2017	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2016		Additions for the year		31 December 2016	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	200	19,965	100	9,982	300	29,947

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

37 Other equity instrument (continued)

(d) Interests attributable to equity instruments' holders

Items	30 June 2017	31 December 2016
Total equity attributable to equity shareholders of the Bank	265,532	250,455
– Equity attributable to ordinary equity holders of the Bank	235,585	220,508
– Equity attributable to preference shares holders of the Bank	29,947	29,947
Total equity attributable to non-controlling interests	643	613
– Equity attributable to non-controlling interests of ordinary shares	643	613
– Equity attributable to non-controlling interests of preference shares	–	–

38 Capital reserve

	30 June 2017	31 December 2016
Share premium	33,365	33,365
Total	33,365	33,365

39 Other comprehensive income

	30 June 2017	31 December 2016
Items that may be reclassified subsequently to profit or loss		
Fair value changes on available-for-sale financial assets	(807)	552
Exchange differences on translation of financial statements of overseas subsidiaries	12	41
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plan	(84)	(84)
Total	(879)	509

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

39 Other comprehensive income (continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value gains on available for sale financial assets	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2016	3,982	8	(61)	3,929
Changes in amount for the previous year	(3,430)	33	(23)	(3,420)
As at 1 January 2017	552	41	(84)	509
Changes in amount for the period	(1,359)	(29)	-	(1,388)
As at 30 June 2017	(807)	12	(84)	(879)

40 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

41 Appropriation of profits

- (a) At the Annual General Meeting of shareholders held on 20 June 2017, the shareholders approved the following profit appropriations for the year ended 31 December 2016:
- Appropriated RMB2,987 million (10% of the net profit of the bank) to surplus reserve;
 - Appropriated RMB10,362 million to general reserve; and
 - Declared cash dividends to all shareholders of RMB4,575 million representing RMB0.98 per 10 shares before tax.
- (b) At the Board Meeting held on 6 June 2017, the dividend distribution of the first preference shares was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.3 per share before tax, start accruing from 25 June 2016, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.
- (c) At the Annual General Meeting of shareholders held on 29 June 2016, the shareholders approved the following profit appropriations for the year ended 31 December 2016:
- Appropriated RMB2,914 million (10% of the net profit of the bank) to surplus reserve;
 - Appropriated RMB6,368 million to general reserve; and
 - Declared cash dividends to all shareholders of RMB8,869 million representing RMB1.90 per 10 shares before tax.
- (d) At the Board Meeting held on 17 June 2016, the dividend distribution of the first preference shares was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.3 per share before tax, start accruing from 25 June 2015, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

42 Involvement with structured entities

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

The types of structured entities that the Group does not consolidate but in which it holds an interest include entities set up for wealth management products issued by other financial institutions and beneficial interest transfer plans (“asset management plans”), available-for-sale fund investments, principle unguaranteed wealth management products and asset-backed securities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities as at 30 June 2017:

	30 June 2017		31 December 2016	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Debt securities classified as receivables	514,502	514,502	627,678	627,678
Available-for-sale financial assets				
– Fund investments and others	103,836	103,836	25,500	25,500
– Wealth management products	107,415	107,415	161,294	161,294
Held-to-maturity investments				
– Asset-backed securities	3,725	3,725	1,688	1,688
Total	729,478	729,478	816,160	816,160

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

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

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

42 Involvement with structured entities (continued)

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

As at 30 June 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB862,448 million (31 December 2016: RMB1,028,903 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 30 June 2017 amounted to RMB164,089 million (Six months ended 30 June 2016: RMB279,551 million).

During the six months ended 30 June 2017, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB2,256 million (Six months ended 30 June 2016: RMB3,646 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. During the six months ended 30 June 2017, the average balance of such financing provided by the Group to the unconsolidated wealth management products was RMB28 million (Six months ended 30 June 2016: Nil). Such financing provided by the Group was included in "Placements with banks and other financial institutions". As at 30 June 2017, the balance of above trading was RMB5,000 million (31 December 2016: Nil). The maximum exposure to loss of those placements approximated to the carrying amount. During the six months ended 30 June 2017, the Group's interest income from placements with these wealth management products was immaterial.

In addition, as at 30 June 2017, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note III.43. During the six months ended 30 June 2017, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items in accordance with the Group's accounting policies based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

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43 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB530 million as at 30 June 2017 (31 December 2016: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 30 June 2017 (31 December 2016: Nil) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB550 million as at 30 June 2017 (31 December 2016: Nil).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2017, loans with an original carrying amount of RMB6,423million (31 December 2016: RMB6,593 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 30 June 2017, the carrying amount of assets that the Group continues to recognise amounts to RMB2,896million (31 December 2016: RMB2,983 million).

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

44 Capital management

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

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

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

44 Capital management (continued)

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP. During the period, the Group has complied in full with all its externally imposed capital requirements.

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements promulgated by the CBRC:

	30 June 2017	31 December 2016
Total common equity tier-one capital	236,069	221,001
Share capital	46,679	46,679
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	37,647	33,874
Surplus reserve	17,951	17,951
General reserve	51,448	51,447
Retained earnings	81,860	70,557
Qualifying portions of non-controlling interests	484	493
Common equity tier-one capital deductions	(2,087)	(2,125)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(802)	(844)
Net deferred tax assets arising from operating losses that depend on future profits	(4)	–
Net common equity tier-one capital	233,982	218,876
Additional tier-one capital	30,012	29,997
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	65	50
Tier-one capital net	263,994	248,873
Tier-two capital	68,152	39,007
Qualifying portions of tier-two capital instruments issued and share premium	50,869	22,900
Excess loan loss provisions	17,173	16,014
Qualifying portions of non-controlling interests	110	93
Net capital base	332,146	287,880
Total risk-weighted assets	2,801,649	2,665,037
Common equity tier-one capital adequacy ratio	8.35%	8.21%
Tier-one capital adequacy ratio	9.42%	9.34%
Capital adequacy ratio	11.86%	10.80%

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

45 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents:

	For the six months ended 30 June	
	2017	2016
Cash and cash equivalents as at 30 June	181,347	204,215
Less: Cash and cash equivalents as at 1 January	241,507	121,964
Net (decrease)/increase in cash and cash equivalents	(60,160)	82,251

(b) Cash and cash equivalents:

	30 June 2017	30 June 2016
Cash on hand	5,739	6,583
Deposits with the central bank	29,667	70,641
Deposits with banks and other financial institutions	83,432	94,089
Placements with banks and other financial institutions	62,509	32,902
Total	181,347	204,215

46 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation.

The national organisation code of China Everbright Group is 10206389-7, and the transactions and balances with China Everbright Group and its affiliates are listed in Note III 46(b).

Notes to the Unaudited Condensed Consolidated Financial Statements

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. (“Everbright Securities”)	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright International Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co.,Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment And Assets Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
– Everbright jin’ou Asset Management Limited	Affiliate of China Everbright Group Ltd.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
- Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
- Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
- Jiaxing Meiyin Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
- China Everbright International Trust & Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
- Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
- Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
- Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
- Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
- Jiaxing Meiyin Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
- China Everbright Baode Trust Fund Management Co., Ltd	Affiliate of China Everbright Group Ltd.
- Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
- Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
- China Banks and Securities Data Network Co., Ltd	Affiliate of China Everbright Group Ltd.
- Everbright International Hotel Property Management Co., Ltd	Affiliate of China Everbright Group Ltd.
- Everbright Photon Investment Management Co., Ltd	Affiliate of China Everbright Group Ltd.
- Everbright Deshang Investment Management (Shenzhen) Co., Ltd	Affiliate of China Everbright Group Ltd.
- China Everbright Ivy Investment Management (Shanghai) Co., Ltd	Affiliate of China Everbright Group Ltd.
- Beijing Wenzhi Everbright cultural and creative industry Investment Management Co., Ltd	Affiliate of China Everbright Group Ltd.
- Beijing Everbright Wudaokou Investment Fund Management Co., Ltd	Affiliate of China Everbright Group Ltd.
- Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group (continued):

Related party	Relationship with the Group
Other related parties	
- China Re Asset Management Co., Ltd.	Common key management
- China Shipping (Group) Company	Common key management
- Shanghai International Trust Co., Ltd.	Common key management
- COSCO Finance Co., Ltd.	Common key management
- Shanghai Baosight Software Co, Ltd.	Common key management
- SAIC Motor Co., Ltd	Common key management
- Vantone Holdings Co., Ltd	Common key management
- Haitong Securities Co., Ltd.	Common key management
- China UnionPay Co., Ltd.	Common key management
- Orient Securities Co., Ltd.	Common key management
- Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
- China Pacific Property Insurance Co., Ltd.	Common key management
- China Pacific Life Insurance Co., Ltd.	Common key management
- First-trust Fund Management Co., Ltd	Common key management
- Shanghai Benemae Pharmaceutical Corporation	Common key management
- Hithink Flush Information Network Co., Ltd	Common key management
- Shanghai Electric Group Co., Ltd	Common key management
- China Traditional Chinese Medicine Co., Ltd.	Common key management
- Beijing Science and Technology Park Construction (group) Co. Ltd	Common key management
- Beijing Jingneng Clean Energy Co Ltd	Common key management
- Shanghai Jiabao Industry Commerce (group) Co. Ltd	Common key management
- COSCO Shipping Development Co Ltd	Common key management

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2017:				
Interest income	–	713	34	747
Interest expense	(3)	(224)	(260)	(487)
Balances with related parties as at 30 June 2017:				
Financial assets at fair value through profit or loss	–	–	202	202
Financial assets held under resale agreements	–	195	–	195
Interests receivable	1	172	22	195
Loans and advances to customers	–	2,627	–	2,627
Available-for-sale financial assets	285	9,200	440	9,925
Held-to-maturity investments	–	–	950	950
Debt securities classified as receivables	–	212,528	1,920	214,448
Other assets	–	–	1	1
Total	286	224,722	3,535	228,543
Deposits from banks and other financial institutions	–	2,644	542	3,186
Derivative financial liabilities	–	1	–	1
Deposits from customers	307	14,501	12,559	27,367
Interests payable	2	70	40	112
Total	309	17,216	13,141	30,666
Significant other sheet items with related parties as at 30 June 2017:				
Guarantee granted by the Group (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	138	–	138

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for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows (continued):

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2016:				
Interest income	–	365	82	447
Interest expense	(2)	(981)	(365)	(1,348)
Balances with related parties as at 31 December 2016:				
Interests receivable	2	593	2	597
Loans and advances to customers	–	5,142	–	5,142
Derivative financial assets	–	1	–	1
Available-for-sale financial assets	190	3,000	–	3,190
Held-to-maturity investments	–	–	950	950
Debt securities classified as receivables	–	196,460	60	196,520
Total	192	205,196	1,012	206,400
Deposits from banks and other financial institutions				
	–	8,434	1,204	9,638
Derivative financial liabilities	–	–	1	1
Deposits from customers	460	9,308	12,477	22,245
Interests payable	–	109	317	426
Other liabilities	–	4	–	4
Total	460	17,855	13,999	32,314
Significant off-balance sheet items with related parties as at 31 December 2016:				
Guarantee granted (Note)	180	–	–	180

Note: As at 30 June 2017, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2016: RMB180 million) due to one of the state-owned commercial banks.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

46 Related party relationships and transactions (continued)

(c) China Investment Corporation, Huijin and its affiliates

Approved by the State Council of the PRC, China Investment Corporation (“CIC”) was established on 29 September 2007 with a registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million and the national organisation code is 71093296-1. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the reporting period.

The Group’s material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	Six months ended 30 June	
	2017	2016
Interest income	2,497	3,370
Interest expense	(2,833)	(3,037)

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

46 Related party relationships and transactions (continued)

(c) China Investment Corporation, Huijin and its affiliates (continued)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	30 June 2017	31 December 2016
Deposits with banks and other financial institutions	19,481	71,096
Placements with banks and other financial institutions	18,926	14,523
Financial assets at fair value through profit or loss	566	651
Derivative financial assets	483	2,041
Financial assets held under resale agreements	10,411	10,210
Interests receivable	1,580	4,355
Loans and advances to customers	–	341
Available-for-sale financial assets	30,618	48,964
Held-to-maturity investments	26,528	13,601
Debt securities classified as receivables	28,364	111,896
Other assets	610	570
Deposits from banks and other financial institutions	85,307	256,275
Placements from banks and other financial institutions	38,988	33,821
Derivative financial liabilities	749	973
Financial assets sold under repurchase agreements	1,080	15,627
Deposits from customers	14,596	13,271
Interests payable	1,083	1,643
Other liabilities	2	1

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

46 Related party relationships and transactions (continued)

(e) Key management personnel

	For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Remuneration	8,410	10,440
Retirement benefits	567	634
– Basic social pension insurance	311	336

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Aggregate amount of relevant loans outstanding as at the period/year end	11,557	14,034
Maximum aggregate amount of relevant loans outstanding during the period/year	14,352	18,686

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

47 Segment reporting

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

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

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

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

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

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

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

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities

	For the six months ended 30 June 2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	10,065	11,390	8,928	–	30,383
Internal net interest income/ (expense)	7,297	(4,486)	(2,811)	–	–
Net interest income	17,362	6,904	6,117	–	30,383
Net fee and commission income	3,696	10,972	1,324	–	15,992
Net trading losses	–	–	(1,330)	–	(1,330)
Net gains/(losses) arising from investment securities	–	3	(79)	–	(76)
Foreign exchange gains	118	54	968	–	1,140
Other operating income	169	16	13	78	276
Operating income	21,345	17,949	7,013	78	46,385
Operating expenses	(6,845)	(6,812)	(623)	(71)	(14,351)
Operating profit before impairment	14,500	11,137	6,390	7	32,034
Impairment losses on assets	(6,096)	(3,385)	(549)	–	(10,030)
Profit before tax	8,404	7,752	5,841	7	22,004
Other segment information					
– Depreciation and amortisation	(528)	(496)	(41)	–	(1,065)
– Capital expenditure	541	536	41	–	1,118
	30 June 2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,555,005	919,898	1,549,726	715	4,025,344
Segment liabilities	1,885,565	531,854	1,343,325	2,032	3,762,776

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

47 Segment reporting (continued)**(a) Segment results, assets and liabilities** (continued)

	For the six months ended 30 June 2016				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	9,029	8,571	15,025	–	32,625
Internal net interest income/ (expense)	8,270	(2,506)	(5,764)	–	–
Net interest income	17,299	6,065	9,261	–	32,625
Net fee and commission income	3,596	7,997	2,305	–	13,898
Net trading gains	–	–	546	–	546
Net gains/(losses) arising from investment securities	–	22	(99)	–	(77)
Foreign exchange gains/(losses)	49	(9)	(211)	(3)	(174)
Other operating income	124	36	10	93	263
Operating income	21,068	14,111	11,812	90	47,081
Operating expenses	(7,003)	(6,891)	(1,500)	(19)	(15,413)
Operating profit before impairment	14,065	7,220	10,312	71	31,668
Impairment losses on assets	(7,751)	(2,064)	(141)	–	(9,956)
Profit before tax	6,314	5,156	10,171	71	21,712
Other segment information					
– Depreciation and amortisation	(509)	(509)	(75)	–	(1,093)
– Capital expenditure	805	202	29	–	1,036
	31 December 2016				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,434,132	813,671	1,764,652	684	4,013,139
Segment liabilities	1,726,670	493,530	1,546,910	1,844	3,768,954

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note	30 June 2017	31 December 2016
Segment assets		4,025,344	4,013,139
Goodwill	23	1,281	1,281
Deferred tax assets	24	6,921	5,622
Total assets		4,033,546	4,020,042
Segment liabilities		3,762,776	3,768,954
Dividend payables	35	4,595	20
Total liabilities		3,767,371	3,768,974

(b) Geographical information

The Group operates principally in mainland China with branches located in 30 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province and Hong Kong.

Non-current assets include property and equipment, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by subsidiary and branches of the Bank, Huai’an Everbright: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Everbright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

Notes to the Unaudited Condensed Consolidated Financial Statements

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

47 Segment reporting (continued)

(b) Geographical information (continued)

- “Western” refers to the following areas serviced by branches of the Bank: Xi’an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining and Yinchuan;
- “Northeastern” refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul; and
- “Head Office” refers to the headquarter of the Group.

	Operating Income									Total
	Yangtze River Delta			Head Office	Central	Pearl River Delta		North		
	River	Bohai Rim	Delta			Western	eastern	Overseas		
For the six months period ended 30 June 2017	6,942	6,558	14,943	6,621	4,389	4,391	1,960	581	46,385	
For the six months period ended 30 June 2016	7,890	6,911	13,805	6,480	4,909	4,402	2,360	324	47,081	

	Non-current Asset (i)									Total
	Yangtze River Delta			Head Office	Central	Pearl River Delta		North		
	River	Bohai Rim	Delta			Western	eastern	Overseas		
30 June 2017	2,548	921	5,184	3,229	1,149	1,249	935	50	15,265	
31 December 2016	2,617	970	4,914	3,388	1,202	1,067	966	54	15,178	

Note:

(i) Including fixed and intangible assets and land use rights.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management

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

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

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

(a) Credit risk

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

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Small and Micro Enterprises Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Credit Management Department, and Special Assets Resolution Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution". The Risk Management Department is responsible for the planning and co-ordination of the overall risk management system of the Group, leading the development of the basic policies of credit risk management, leading the development of the credit system and procedures, and leading the development of general industry-specific limits policy which covers credit business; The Credit Approval Department is responsible for overall planning and management of credit lines evaluation and approval of general risk business includes corporate and institutions, banks and other financial institutions, retail business and group client. The Credit Approval Department is responsible for approving credit lines which beyond the approval authority of branches and those managed directly by head quarter. The credit approval authority is independent of the business line departments to ensure the independence of the credit approval; The Credit Management Department is responsible for post-lending monitoring and risk warnings monitoring of corporate business, and is responsible for the control and management of the key phases of credit business and guide the operation of credit payment review of the Bank; The Retail Business Department is responsible for post-lending monitoring and risk warnings monitoring of retail business; The Special Assets Resolution Department is responsible for collection and disposal of non-performing assets, management and disposal of repossessed assets of the Group, etc. The above credit risk management function departments constitute the second line of defense of credit risk management, and are responsible for the overall supervision of credit risk management.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

- The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

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

For corporate businesses, the Group has established industry-specific limits for credit approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved; During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

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

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan issued by China Banking Regulatory Commission (CBRC).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

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

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the year is disclosed in Note III 51(a).

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows:*

	30 June 2017					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Individually assessed gross amount	22,426	602	16	–	1,512	326
Provision for impairment losses	(12,021)	(503)	(16)	–	(932)	(128)
Sub-total	10,405	99	–	–	580	198
Collectively assessed gross amount	8,635	–	–	–	–	1,341
Provision for impairment losses	(5,055)	–	–	–	–	(69)
Sub-total	3,580	–	–	–	–	1,272
Overdue but not impaired						
– Less than 3 months (inclusive)	15,047	153	–	–	–	–
– Between 3 months and 6 months (inclusive)	1,735	47	–	–	–	–
– Over 6 months	5,125	102	350	–	128	–
Gross amount	21,907	302	350	–	128	–
Provision for impairment losses	(3,988)	(83)	–	–	–	–
Sub-total	17,919	219	350	–	128	–
Neither overdue nor impaired						
Gross amount	1,911,480	57,056	261,672	97,243	1,246,072	40,526
Provision for impairment losses	(26,203)	(982)	(17)	–	(2,198)	(427)
Sub-total	1,885,277	56,074	261,655	97,243	1,243,874	40,099
Total	1,917,181	56,392	262,005	97,243	1,244,582	41,569

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2016					
	Loans and advances to customers	Finance lease receivables	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Individually assessed gross amount	21,412	501	16	-	4,074	279
Provision for impairment losses	(11,285)	(403)	(16)	-	(1,092)	(106)
Sub-total	10,127	98	-	-	2,982	173
Collectively assessed gross amount	7,290	-	-	-	-	1,216
Provision for impairment losses	(3,758)	-	-	-	-	(94)
Sub-total	3,532	-	-	-	-	1,122
Overdue but not impaired						
- Less than 3 months (inclusive)	15,352	71	-	-	-	-
- Between 3 months and 6 months (inclusive)	3,083	44	-	-	-	-
- Over 6 months	6,656	98	350	-	1	-
Gross amount	25,091	213	350	-	1	-
Provision for impairment losses	(4,519)	(139)	-	-	-	-
Sub-total	20,572	74	350	-	1	-
Neither overdue nor impaired						
Gross amount	1,741,485	56,355	358,609	67,000	1,316,657	38,484
Provision for impairment losses	(24,072)	(967)	(24)	-	(1,497)	(394)
Sub-total	1,717,413	55,388	358,585	67,000	1,315,160	38,090
Total	1,751,644	55,560	358,935	67,000	1,318,143	39,385

* Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

** Others comprise derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2017	31 December 2016
Carrying value		
<i>Individually assessed and impaired</i>		
Gross amount	16	16
Provision for impairment losses	(16)	(16)
Sub-total	–	–
<i>Overdue but not impaired</i>		
– grade A to AAA	350	350
Sub-total	350	350
<i>Neither overdue nor impaired</i>		
– grade A to AAA	272,473	383,144
– grade B to BBB	12,963	32,069
– unrated (Note)	73,462	10,372
Sub-total	358,898	425,585
Total	359,248	425,935

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) Credit rating (continued)

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

	30 June 2017	31 December 2016
Carrying value		
<i>Individually assessed and impaired</i>		
Gross amount	1,511	1,509
Provision for impairment losses	(931)	(745)
Sub-total	580	764
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AAA	684	687
– grade AA- to AA+	145	536
– grade A- to A+	6,585	4,981
– grade lower than A-	4,304	3,767
Sub-total	11,718	9,971
<i>Other agency ratings</i>		
– grade AAA	163,623	180,112
– grade AA- to AA+	322,715	296,321
– grade A- to A+	1,360	2,330
– grade lower than A-	2,718	2,373
– unrated	15,497	11,160
Sub-total	505,913	492,296
Total	518,211	503,031

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Market Risk Management Division in the Financial Market Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

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

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

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

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(b) Market risk (continued)

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

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

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

Interest rate risk

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

Repricing risk

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

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

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

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

	30 June 2017						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	345,530	18,425	327,105	-	-	-
Deposits with banks and other financial institutions	3.45%	117,919	-	98,806	19,113	-	-
Placements with banks and other financial institutions	3.11%	144,086	-	114,385	29,291	410	-
Financial assets held under resale agreements	3.18%	97,243	-	97,243	-	-	-
Loans and advances to customers	4.42%	1,917,181	21,136	1,069,251	803,846	20,476	2,472
Finance lease receivables	4.50%	56,392	272	44,315	10,775	169	861
Investments (Note (i))	4.05%	1,244,582	1,080	245,056	275,872	631,054	91,520
Others	-	110,613	107,174	88	-	-	3,351
Total assets	3.92%	4,033,546	148,087	1,996,249	1,138,897	652,109	98,204
Liabilities							
Due to the central bank	3.01%	217,500	-	57,000	160,500	-	-
Deposits from banks and other financial institutions	3.87%	519,366	-	473,563	45,803	-	-
Placements from banks and other financial institutions	2.55%	121,766	23	77,459	44,284	-	-
Financial assets sold under repurchase agreements	2.64%	14,094	-	13,378	716	-	-
Deposits from customers	1.88%	2,271,303	6,521	1,580,945	440,359	243,471	7
Debt securities issued	3.80%	531,006	-	279,491	162,550	38,096	50,869
Others	-	92,336	88,781	1,999	349	1,201	6
Total liabilities	2.60%	3,767,371	95,325	2,483,835	854,561	282,768	50,882
Asset-liability gap	1.32%	266,175	52,762	(487,586)	284,336	369,341	47,322

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(continued)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

	31 December 2016						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	381,620	14,831	366,789	-	-	-
Deposits with banks and other financial institutions	2.86%	232,630	-	166,543	66,087	-	-
Placements with banks and other financial institutions	3.20%	126,305	-	41,249	84,646	410	-
Financial assets held under resale agreements	2.98%	67,000	-	65,000	2,000	-	-
Loans and advances to customers	4.57%	1,751,644	23,124	1,359,000	350,397	15,924	3,199
Finance lease receivables	3.99%	55,560	44	54,023	749	89	655
Investments (Note (i))	4.03%	1,318,143	1,906	237,364	424,925	562,973	90,975
Others	-	87,140	84,123	2,073	810	134	-
Total assets	3.92%	4,020,042	124,028	2,292,041	929,614	579,530	94,829
Liabilities							
Due to the central bank	3.00%	187,000	-	22,000	165,000	-	-
Deposits from banks and other financial institutions	2.85%	830,354	-	678,441	151,913	-	-
Placements from banks and other financial institutions	2.45%	95,501	23	57,029	38,449	-	-
Financial assets sold under repurchase agreements	2.23%	41,195	-	40,448	747	-	-
Deposits from customers	1.98%	2,120,887	6,824	1,581,014	327,249	205,798	2
Debt securities issued	3.27%	412,500	-	106,911	276,090	6,599	22,900
Others	-	81,537	73,439	6,549	996	553	-
Total liabilities	2.33%	3,768,974	80,286	2,492,392	960,444	212,950	22,902
Asset-liability gap	1.59%	251,068	43,742	(200,351)	(30,830)	366,580	71,927

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

Note:

- *Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.*
- *Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.*

- (ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2017, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB3,798 million (31 December 2016: RMB2,442 million), and equity to decrease by RMB4,975 million (31 December 2016: RMB5,257 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB3,807 million (31 December 2016: RMB2,448 million), and equity to increase by RMB5,090 million (31 December 2016: RMB5,436 million).

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(continued)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) *Interest rate sensitivity analysis* (continued)

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

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

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

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

	30 June 2017			Total
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	338,663	6,417	450	345,530
Deposits with banks and other financial institutions	103,421	11,079	3,419	117,919
Placements with banks and other financial institutions	100,304	41,831	1,951	144,086
Financial assets held under resale agreements	97,243	–	–	97,243
Loans and advances to customers	1,831,332	53,933	31,916	1,917,181
Finance lease receivables	55,531	861	–	56,392
Investments (Note (i))	1,216,262	24,934	3,386	1,244,582
Others	105,696	4,290	627	110,613
Total assets	3,848,452	143,345	41,749	4,033,546
Liabilities				
Due to the central bank	217,500	–	–	217,500
Deposits from banks and other financial institutions	519,224	89	53	519,366
Placements from banks and other financial institutions	49,612	55,031	17,123	121,766
Financial assets sold under repurchase agreements	14,094	–	–	14,094
Deposit from customers	2,143,253	109,879	18,171	2,271,303
Debt securities issued	514,538	12,585	3,883	531,006
Others	87,229	4,053	1,054	92,336
Total liabilities	3,545,450	181,637	40,284	3,767,371
Net position	303,002	(38,292)	1,465	266,175
Off-balance sheet credit commitments	691,713	26,628	10,042	728,383
Derivative financial instruments (Note (ii))	(33,310)	31,994	706	(610)

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48 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

	31 December 2016			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	376,515	4,606	499	381,620
Deposits with banks and other financial institutions	217,010	12,734	2,886	232,630
Placements with banks and other financial institutions	108,790	14,987	2,528	126,305
Financial assets held under resale agreements	67,000	–	–	67,000
Loans and advances to customers	1,683,451	45,396	22,797	1,751,644
Finance lease receivables	54,833	727	–	55,560
Investments (Note (i))	1,295,648	20,138	2,357	1,318,143
Others	83,782	2,470	888	87,140
Total assets	3,887,029	101,058	31,955	4,020,042
Liabilities				
Due to the central bank	187,000	–	–	187,000
Deposits from banks and other financial institutions	829,623	677	54	830,354
Placements from banks and other financial institutions	55,207	30,650	9,644	95,501
Financial assets sold under repurchase agreements	41,195	–	–	41,195
Deposit from customers	2,031,212	72,528	17,147	2,120,887
Debt securities issued	405,481	5,049	1,970	412,500
Others	75,911	4,210	1,416	81,537
Total liabilities	3,625,629	113,114	30,231	3,768,974
Net position	261,400	(12,056)	1,724	251,068
Off-balance sheet credit commitments	676,940	19,249	5,928	702,117
Derivative financial instruments (Note (ii))	(15,445)	14,656	1,462	673

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

Note:

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.
- (ii) Derivative financial instruments reflect the net notional amounts of derivatives.

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	30 June 2017	31 December 2016
Exchange rates against RMB for the HK dollars	0.8688	0.8956
Exchange rates against RMB for the US dollars	6.7820	6.9450

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2017, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB5 million (31 December 2016: RMB6 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB5 million (31 December 2016: RMB6 million).

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity) against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

Price risk

Equity instrument investment price risk refers to the fair value of the equity securities by stock index level and the change of the value of individual securities and reduce risk. The Group is exposed to equity price risk on its available for sale listed equity securities. As at 30 June 2017, a 5 percentage variance in listed equity prices from the year end price would impact the net asset by RMB3,899 million (31 December 2016: RMB962 million). For those available for sale equities considered impaired, the impact would be taken to the statement of profit and loss.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee (“ALMC”) is responsible for managing the Group’s overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank’s funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium- and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group will proactively promote the growth of stable sources of liabilities such as core deposits, and will also continue to implement the optimization of liability structure through issuing various bonds as appropriate. The Group will expand liability channels and enhance diversified proactive liability capability to improve the Bank’s stability of capital sources, and ensure the appropriate total amounts, stable sources, diversified structure and matching terms, thus preventing market risks effectively.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2017							
	Repayable on demand	Indefinite	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	310,124	35,406	-	-	-	-	-	345,530
Deposit with banks and other financial institutions	350	38,518	17,494	38,622	22,124	-	811	117,919
Placements with banks and other financial institutions	-	-	74,957	39,428	29,291	410	-	144,086
Financial asset held under resale agreements	-	-	96,592	651	-	-	-	97,243
Loans and advances to customers	26,795	245,183	55,665	113,837	457,542	487,481	530,678	1,917,181
Finance lease receivables	189	129	1,048	3,561	9,864	33,838	7,763	56,392
Investments (Note (i))	1,259	103,858	45,680	85,731	272,666	641,091	94,297	1,244,582
Others	68,909	9,186	2,671	13,914	7,736	4,820	3,377	110,613
Total assets	407,626	432,280	294,107	295,744	799,223	1,167,640	636,926	4,033,546
Liabilities								
Due to the central bank	-	-	41,000	16,000	160,500	-	-	217,500
Deposits from banks and other financial institutions	-	118,360	98,181	257,022	45,703	100	-	519,366
Placements from banks and other financial institutions	-	23	39,461	37,998	44,284	-	-	121,766
Financial assets sold under repurchase agreements	-	-	12,260	1,118	716	-	-	14,094
Deposit from customers	-	1,113,204	182,144	274,731	457,622	243,595	7	2,271,303
Debt securities issued	-	-	63,975	215,516	137,480	38,096	75,939	531,006
Others	-	41,196	14,377	5,555	14,487	13,724	2,997	92,336
Total liabilities	-	1,272,783	451,398	807,940	860,792	295,515	78,943	3,767,371
Long/(Short) position	407,626	(840,503)	(157,291)	(512,196)	(61,569)	872,125	557,983	266,175
Notional amount of derivative financial instruments	-	-	116,664	90,027	260,303	55,519	100	522,613

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period (continued):

	31 December 2016							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	308,698	72,922	-	-	-	-	-	381,620
Deposit with banks and other financial institutions	350	107,399	31,397	22,904	70,280	300	-	232,630
Placements with banks and other financial institutions	-	-	18,513	22,736	84,646	410	-	126,305
Financial asset held under resale agreements	-	-	61,383	3,617	2,000	-	-	67,000
Loans and advances to customers	33,626	209,601	65,262	118,212	458,974	423,127	442,842	1,751,644
Finance lease receivables	116	-	581	3,467	10,677	32,785	7,934	55,560
Investments (Note (*))	1,187	25,538	82,832	125,547	425,244	566,893	90,902	1,318,143
Others	47,671	7,674	2,093	12,514	13,659	3,514	15	87,140
Total assets	391,648	423,134	262,061	308,997	1,065,480	1,027,029	541,693	4,020,042
Liabilities								
Due to the central bank	-	-	20,000	2,000	165,000	-	-	187,000
Deposits from banks and other financial institutions	-	185,240	260,340	232,861	151,783	130	-	830,354
Placements from banks and other financial institutions	-	23	24,481	32,548	38,449	-	-	95,501
Financial assets sold under repurchase agreements	-	-	34,686	5,762	747	-	-	41,195
Deposit from customers	-	1,082,376	133,953	266,783	392,789	244,984	2	2,120,887
Debt securities issued	-	-	14,322	91,689	276,990	6,599	22,900	412,500
Others	-	29,393	12,748	6,033	15,986	16,848	529	81,537
Total liabilities	-	1,297,032	500,530	637,676	1,041,744	268,561	23,431	3,768,974
Long/(Short) position	391,648	(873,898)	(238,469)	(328,679)	23,736	758,468	518,262	251,068
Notional amount of derivative financial instruments	-	-	90,122	57,065	269,778	32,811	-	449,776

Note:

(*) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)

(c) Liquidity risk (continued)

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

	30 June 2017							
	Contractual Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	217,500	223,561	-	41,912	16,245	165,404	-	-
Deposits from banks and other financial institutions	519,366	525,043	118,360	99,096	259,990	47,492	105	-
Placements from banks and other financial institutions	121,766	123,874	23	39,686	38,386	45,779	-	-
Financial assets sold under repurchase agreements	14,094	14,146	-	12,279	1,138	729	-	-
Deposits from customers	2,271,303	2,334,845	1,115,792	186,105	279,000	477,282	276,658	8
Debt securities issued	531,006	564,957	-	64,660	217,900	143,078	52,641	86,678
Other financial liabilities	55,247	55,403	40,420	9,426	536	500	1,523	2,998
Total non-derivative financial liabilities	3,730,282	3,841,829	1,274,595	453,164	813,195	880,264	330,927	89,684
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(186)	-	4	10	(238)	38	-
Derivative financial instruments settled on gross basis								
cash inflow		332,681	-	103,415	64,248	164,116	902	-
cash outflow		(283,280)	-	(103,426)	(14,219)	(164,776)	(859)	-
Total derivative financial liabilities		49,401	-	(11)	50,029	(660)	43	-

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative finance liabilities, loan commitments and credit card commitments at the end of the reporting period (continued):

	31 December 2016							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	187,000	191,049	-	20,384	2,061	168,604	-	-
Deposits from banks and other financial institutions	830,354	838,112	185,240	261,502	235,769	155,458	143	-
Placements from banks and other financial institutions	95,501	96,998	23	24,604	32,904	39,467	-	-
Financial assets sold under repurchase agreements	41,195	41,289	-	34,693	5,836	760	-	-
Deposits from customers	2,120,887	2,188,318	1,082,865	137,719	276,461	411,482	279,788	3
Debt securities issued	412,500	432,330	-	14,560	93,814	281,899	7,080	34,977
Other financial liabilities	43,593	43,771	29,056	8,301	1,263	1,715	2,907	529
Total non-derivative financial liabilities	3,731,030	3,831,867	1,297,184	501,763	648,108	1,059,385	289,918	35,509
Derivative financial liabilities								
Derivative financial instruments settled on net basis		58	-	-	3	(3)	58	-
Derivative financial instruments settled on gross basis								
cash inflow		357,306	-	87,299	55,589	213,782	636	-
cash outflow		(356,541)	-	(87,112)	(55,112)	(213,685)	(632)	-
Total derivative financial liabilities		765	-	187	477	97	4	-

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

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

48 Risk Management (continued)**(c) Liquidity risk** (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2017			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	178,779	1,741	5,763	186,283
Guarantees, acceptances and other credit commitments	512,138	27,468	2,494	542,100
Total	690,917	29,209	8,257	728,383

	31 December 2016			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	151,752	1,071	5,654	158,477
Guarantees, acceptances and other credit commitments	519,871	21,320	2,449	543,640
Total	671,623	22,391	8,103	702,117

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

48 Risk Management (continued)

(d) Operational risk

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

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

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

49 Fair value

(a) Methods and assumptions for measurement of fair value

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

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) *Receivables and other non-derivative financial assets*

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

(iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) *Derivative financial instruments*

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

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

49 Fair value (continued)

(b) Fair value measurement

(i) Financial assets

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

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

Loans and advances to customers, finance lease receivables and debt securities classified as receivables are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Most of available-for-sale investments and held for trading investments are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note III 19.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debts issued. Except the bonds issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position:

	Carrying value		Fair value	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Financial assets				
Debt securities				
– Held to maturity	352,405	257,500	347,407	258,891
Financial liabilities				
Bonds issued	531,006	412,500	525,459	409,156

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

49 Fair value (continued)

(b) Fair value measurement (continued)

(ii) *Financial liabilities* (continued)

Fair values of held to maturity debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of issued bonds are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

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

Assets and liabilities measured at fair value

	30 June 2017			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments	1,055	19,701	–	20,756
Financial assets designated at fair value through profit or loss	–	21	27	48
<i>Derivative financial assets</i>				
– foreign currency derivatives	–	1,745	–	1,745
– interest rate derivatives	2	390	5	397
<i>Available-for-sale financial assets</i>				
– debt instruments	12,840	132,210	–	145,050
– fund instruments and others	103,836	107,415	–	211,251
– equity instruments	146	–	–	146
Total	117,879	261,482	32	379,393
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss	–	295,865	–	295,865
<i>Derivative financial liabilities</i>				
– foreign currency derivatives	–	2,204	–	2,204
– interest rate derivatives	–	601	10	611
Total	–	298,670	10	298,680

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III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2016			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments	534	7,209	–	7,743
Financial assets designated at fair value through profit or loss	–	43	48	91
<i>Derivative financial assets</i>				
– foreign currency derivatives	–	4,536	–	4,536
– interest rate derivatives	1	398	15	414
<i>Available-for-sale financial assets</i>				
– debt instruments	11,742	226,046	–	237,788
– fund instruments and others	25,500	161,294	–	186,794
– equity instruments	149	–	–	149
Total	37,926	399,526	63	437,515
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss	–	226,890	–	226,890
<i>Derivative financial liabilities</i>				
– foreign currency derivatives	–	4,012	–	4,012
– interest rate derivatives	–	330	26	356
Total	–	231,232	26	231,258

During the period ended 30 June 2017 and 31 December 2016, there were no significant transfers between instruments in Level 1 and Level 2.

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the period ended 30 June 2017 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2017	48	15	63	(26)	(26)
Total gains or losses:					
In profit or loss for the current year	–	(10)	(10)	16	16
Purchases	4	–	4	–	–
Settlements	(25)	–	(25)	–	–
30 June 2017	27	5	32	(10)	(10)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(10)	(10)	16	16

The movement during the year ended 31 December 2016 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2016	113	13	126	(20)	(20)
Total gains or losses:					
In profit or loss for the current year	(7)	3	(4)	(6)	(6)
Purchases	5	–	5	–	–
Settlements	(63)	(1)	(64)	–	–
31 December 2016	48	15	63	(26)	(26)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(6)	3	(3)	(6)	(6)

During the period/year ended 30 June 2017 and 31 December 2016, there were no significant transfers into or out of Level 3.

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position:

	30 June 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
– Held to maturity	4,573	342,834	–	347,407
Financial liabilities				
Bonds issued	–	525,459	–	525,459

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
– Held to maturity	4,370	254,521	–	258,891
Financial liabilities				
Bonds issued	–	409,156	–	409,156

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2017, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	30 June 2017	31 December 2016
Entrusted loans	142,392	120,016
Entrusted funds	142,392	120,016

51 Commitments and contingent liabilities

(a) Credit commitments

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

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	30 June 2017	31 December 2016
Loan commitments		
Original contractual maturity within one year	7,001	10,809
Original contractual maturity more than one year (inclusive)	18,902	19,580
Credit card commitments	160,380	128,088
Sub-total	186,283	158,477
Acceptances	374,587	401,420
Letters of guarantees	95,957	81,424
Letters of credit	71,371	60,611
Guarantees	185	185
Total	728,383	702,117

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

51 Commitments and contingent liabilities (continued)

(a) Credit commitments (continued)

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	30 June 2017	31 December 2016
Credit risk-weighted amount of credit commitments	300,247	265,689

The credit risk weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Operating lease commitments

As at the end of the reporting period, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	30 June 2017	31 December 2016
Within one year (inclusive)	2,322	2,319
After one year but within two years (inclusive)	1,977	2,170
After two years but within three years (inclusive)	1,734	1,863
After three years but within five years (inclusive)	2,753	2,842
After five years	2,781	2,791
Total	11,567	11,985

III Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

51 Commitments and contingent liabilities (continued)

(d) Capital commitments

As at the balance sheet dates, the Group's authorised capital commitments are as follows:

	30 June 2017	31 December 2016
Contracted for		
– Purchase of property and equipment	782	1,203
Approved but not contracted for		
– Purchase of property and equipment	1,204	1,260
Total	1,986	2,463

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2017.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at 30 June 2017, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2017	31 December 2016
Redemption commitments	8,402	8,308

(f) Forward purchase and sale commitments

The Group has unexpired forward purchase and sale commitments as follows:

	30 June 2017	31 December 2016
Forward purchase and sale commitments	550	550

Notes to the Unaudited Condensed Consolidated Financial Statements

for the Six Months Ended 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

III Notes to the Unaudited Condensed Consolidated Financial Statements

(continued)

51 Commitments and contingent liabilities (continued)

(g) Outstanding litigations and disputes

As at 30 June 2017, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB683 million (31 December 2016: RMB845 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

52 Subsequent Events

On 21 July 2017, the Bank issued a financial bond with notional amount of RMB22 billion in China's interbank bond market. The bond was a three-year bond with a fixed coupon rate of 4.20%. During the three-year period, the bond holders can not sell the bonds back to the issuer, nor the issuer can buy the bonds from the holders.

On 20 June 2017, the Shareholder's General Meeting approved non-public issuance of no more than 6,569 million H shares. The proceeds amounted no more than RMB31 billion. The proposal was approved by CBRC on 25 July 2017.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 Liquidity Coverage Ratio and Leverage Ratio

Liquidity Coverage Ratio

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

	30 June 2017
Liquidity coverage ratio	94.59%
High Quality Liquid Assets	271,265.82
Net cash outflows in 30 days from the end of the reporting period	286,778.06

Liquidity Ratio*

	Average for the As at 30 June 2017	Average for the period ended 30 June 2017	Average for the As at 31 December 2016	Average for the year ended 31 December 2016
RMB current assets to RMB current liabilities	52.39%	56.87%	63.18%	57.92%
Foreign current assets to foreign current liabilities	82.34%	98.32%	78.81%	58.56%

* Liquidity ratio is calculated in accordance with the banking level.

Leverage Ratio

	30 June 2017
Leverage Ratio	5.69%

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

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

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

2 Currency concentrations

	30 June 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	143,345	22,389	19,360	185,094
Spot liabilities	(181,637)	(24,981)	(15,303)	(221,921)
Forward purchases	202,821	4,236	9,300	216,357
Forward sales	(170,827)	(135)	(12,695)	(183,657)
Net (short)/long position	(6,298)	1,509	662	(4,127)
Net structural position	11	23	7	41

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	101,058	19,617	12,338	133,013
Spot liabilities	(113,114)	(20,347)	(9,884)	(143,345)
Forward purchases	186,248	5,563	7,679	199,490
Forward sales	(171,592)	(1,355)	(10,425)	(183,372)
Net long/(short) position	2,600	3,478	(292)	5,786
Net structural position	11	28	8	47

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong branch and Seoul branch. Structural assets mainly include property and equipment.

3 International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

3 International claims (continued)

	As at 30 June 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	33,888	664	37,269	71,821
– of which attributed to Hong Kong	15,390	174	35,259	50,823
Europe	2,699	–	17,526	20,225
North and South America	3,456	237	5,927	9,620
Total	40,043	901	60,722	101,666

	As at 31 December 2016			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	28,302	355	22,478	51,135
– of which attributed to Hong Kong	15,081	197	19,606	34,884
Europe	1,715	131	12,553	14,399
North and South America	2,812	263	1,629	4,704
Total	32,829	749	36,660	70,238

4 Gross amount of overdue loans and advances

(a) By geographical segments

	30 June 2017	31 December 2016
Pearl River Delta	7,699	9,329
Western	6,547	5,556
Yangtze River Delta	5,225	6,079
Bohai Rim	4,876	4,740
Central	4,648	4,895
Head Office	4,526	3,333
Northeastern	957	1,775
Overseas	9	8
Total	34,487	35,715

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances (continued)

(b) By overdue days

	30 June 2017	31 December 2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	5,846	7,099
– between 6 months and 1 year (inclusive)	10,396	13,781
– over 1 year	18,245	14,835
Total	34,487	35,715
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.30%	0.40%
– between 6 months and 1 year (inclusive)	0.52%	0.77%
– over 1 year	0.93%	0.82%
Total	1.75%	1.99%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	30 June 2017	31 December 2016
Covered portion of loans and advances past due but not impaired	11,086	14,041
Uncovered portion of loans and advances past due but not impaired	10,821	11,050
Total loans and advances past due but not impaired	21,907	25,091
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	32,734	37,551


5 Non-bank mainland China exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 30 June 2017, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.



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