

Shengjing Bank Co., Ltd.*

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

Stock Code: 02066



2018 Interim Report

城市



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

COMPANY INFORMATION

Legal Name in Chinese	盛京銀行股份有限公司
Abbreviation in Chinese	盛京銀行
Legal Name in English	Shengjing Bank Co., Ltd.
Abbreviation in English	SHENGJING BANK
Legal Representative	ZHANG Qiyang
Authorised Representatives	ZHANG Qiyang and ZHOU Zhi
Secretary to the Board of Directors	ZHOU Zhi
Joint Company Secretaries	ZHOU Zhi and KWONG Yin Ping, Yvonne
Registered and Business Address	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
Contact Number	86-24-22535633
Website	www.shengjingbank.com.cn
Principal Place of Business in Hong Kong	Unit 3209, 32/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Website of the Hong Kong Stock Exchange on which the H Share Interim Report is Published	www.hkexnews.hk
Place of Maintenance of the Interim Report	Office of the Board of Directors of the Bank
Stock Name	Shengjing Bank
Stock Code	02066

COMPANY INFORMATION (CONTINUED)

**H Share Registrar and
its Business Address**

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

**Legal Advisor as to PRC Laws and
its Business Address**

Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing, the PRC

**Legal Advisor as to Hong Kong Law
and its Business Address**

Freshfields Bruckhaus Deringer
55th Floor, One Island East, Taikoo Place
Quarry Bay, Hong Kong

Auditor and its Business Address

KPMG
8th Floor
Prince's Building
10 Chater Road
Hong Kong

FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended		Rate of Change (%)
	30 June 2018	2017	
Operating Results			
Interest income	21,078,133	18,443,387	14.3
Interest expense	(15,967,611)	(12,973,887)	23.1
Net interest income	5,110,522	5,469,500	(6.6)
Net fee and commission income	373,426	1,067,506	(65.0)
Net trading gains/(losses), net gains arising from investments, net foreign exchange (losses)/gains, and other operating income	545,064	(67,567)	N/A
Operating income	6,029,012	6,469,439	(6.8)
Operating expenses	(1,816,109)	(1,645,935)	10.3
Impairment losses on assets	(1,250,657)	(603,837)	>100
Profit before taxation	2,962,246	4,219,667	(29.8)
Income tax expense	(124,187)	(715,471)	(82.6)
Net profit	2,838,059	3,504,196	(19.0)
Net profit attributable to equity shareholders of the Bank	<u>2,840,709</u>	<u>3,506,738</u>	<u>(19.0)</u>
Calculated on a per share basis (RMB)			Change
Basic and diluted earnings per share	<u>0.49</u>	<u>0.60</u>	<u>(0.11)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	As at 31 December 2017	Rate of Change (%)
Major indicators of assets/liabilities			
Total assets	957,950,392	1,030,617,431	(7.1)
Of which: net loans and advances to customers	324,813,434	271,782,787	19.5
Total liabilities	903,955,047	978,361,775	(7.6)
Of which: deposits from customers	504,865,803	473,580,808	6.6
Share capital	5,796,680	5,796,680	–
Equity attributable to equity shareholders of the Bank	53,423,810	51,681,375	3.4
Total equity	<u>53,995,345</u>	<u>52,255,656</u>	<u>3.3</u>
For the six months ended			
	30 June		
	2018	2017	Change
Profitability Indicators (%)			
Return on average total assets ⁽¹⁾	0.57	0.76	(0.19)
Return on average equity ⁽²⁾	10.68	14.79	(4.11)
Net interest spread ⁽³⁾	1.20	1.42	(0.22)
Net interest margin ⁽⁴⁾	1.30	1.53	(0.23)
Net fee and commission income to operating income	6.19	16.50	(10.31)
Cost-to-income ratio ⁽⁵⁾	<u>29.82</u>	<u>24.00</u>	<u>5.82</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	As at 30 June 2018	As at 31 December 2017	Change
Asset quality indicators (%)			
Non-performing loan ratio ⁽⁶⁾	1.47	1.49	(0.02)
Allowance to non-performing loans ⁽⁷⁾	189.66	186.02	3.64
Allowance to total loans ⁽⁸⁾	<u>2.79</u>	<u>2.77</u>	<u>0.02</u>

	As at 30 June 2018	As at 31 December 2017	Change
Capital adequacy ratio indicators (%)			
Core Tier-one capital adequacy ratio ⁽⁹⁾	8.62	9.04	(0.42)
Tier-one capital adequacy ratio ⁽⁹⁾	8.62	9.04	(0.42)
Capital adequacy ratio ⁽⁹⁾	12.28	12.85	(0.57)
Total equity to total assets ratio	<u>5.64</u>	<u>5.07</u>	<u>0.57</u>
Other indicators (%)			
Loan-to-deposit ratio ⁽¹⁰⁾	<u>66.18</u>	<u>59.02</u>	<u>7.16</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

Notes:

- (1) Calculated by dividing the net profit by the average of total assets at the beginning and at the end of the period.
- (2) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (3) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (4) Calculated by dividing net interest income by the average interest-earning assets.
- (5) Calculated by dividing operating expenses (less business tax and surcharges) by operating income.
- (6) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (7) Calculated by dividing the balance of provision for impairment on loans by the balance of non-performing loans.
- (8) Calculated by dividing the balance of the provision for impairment on loans by the total balance of loans and advances to customers.
- (9) Core Tier-one Capital adequacy ratio, core capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the CBIRC (effective from 1 January 2013).
- (10) The loan-to-deposit ratio is calculated by dividing the total balance of loans and advances to customers by total deposits from customers.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1 BUSINESS REVIEW

In the first half of 2018, facing a number of complicated business environment such as continuous strong supervision, financial de-leverage, and deepening of economic restructuring, the Bank has adopted a business strategy of strengthening its internal business management and establishing its external market image, accelerated the optimization of its business structure and achieved good business results.

As of 30 June 2018, the Bank had total assets of RMB957.950 billion, representing a year-on-year decrease of 7.1%; net loans and advances to customers amounted to RMB324.813 billion, representing a year-on-year increase of 19.5%; non-performing loan ratio was 1.47%, representing a decrease of 0.02 percentage point as compared with that of the end of 2017; balance of deposit of the Bank amounted to RMB504.866 billion, representing a year-on-year increase of 6.6%; the operating income of the Bank amounted to RMB6.029 billion; net profit amounted to RMB2.838 billion.

The Bank adhered to the concept of “taking deposits as the key foundation of the Bank” (存款立行), emphasizing system marketing and key breakthroughs, focusing on settlement liabilities and institutional liabilities, strengthening marketing efforts on institutional clients and “quality industries, quality customers” (優質行業、優質客戶) to promote the growth of general debt. The Bank seized the market opportunities in different stages, focusing on the financing needs of “double superior customers” (雙優客戶), strengthening the marketing efforts on headquarters to headquarters, accelerating the adjustment of asset structure, and returned to the origin of banking. The Bank deepened the implementation of the “big retail” strategy, focusing on payroll agency, agency business, mortgage business, and e-banking to enhance customer loyalty, and promote the continued growth of retail business.

The Bank advocates the concept of “taking compliance as the key foundation of the Bank” (合規立行), emphasizes the timeliness of “internalization of external regulations” and the comprehensiveness of institutional regulation, strengthens the dynamic maintenance and management of systems and mechanisms, gradually revises and improves each internal system and further consolidates compliance management. The Bank will strengthen the unified management of the customers of the Group, strictly prohibit granting of additional credits in different cities, strengthen the centralized review of credits granting business to further improve the approval efficiency, thus to effectively prevent credit risk. The Bank will gradually establish an independent vertical audit system to achieve full coverage of audit in important business segments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2 FINANCIAL REVIEW

3.2.1 Analysis of the Income Statement

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Interest income	21,078,133	18,443,387	2,634,746	14.3
Interest expense	(15,967,611)	(12,973,887)	(2,993,724)	23.1
Net interest income	<u>5,110,522</u>	<u>5,469,500</u>	<u>(358,978)</u>	<u>(6.6)</u>
Net fee and commission income	373,426	1,067,506	(694,080)	(65.0)
Net trading gains/(losses)	1,064,286	(685,600)	1,749,886	N/A
Net gains arising from investments	1,181,407	41,487	1,139,920	>100
Net foreign exchange (losses)/gains	(1,719,387)	568,972	(2,288,359)	<(100)
Other operating income	18,758	7,574	11,184	>100
Operating income	6,029,012	6,469,439	(440,427)	(6.8)
Operating expenses	(1,816,109)	(1,645,935)	(170,174)	10.3
Impairment losses on assets	(1,250,657)	(603,837)	(646,820)	>100
Profit before taxation	<u>2,962,246</u>	<u>4,219,667</u>	<u>(1,257,421)</u>	<u>(29.8)</u>
Income tax expense	<u>(124,187)</u>	<u>(715,471)</u>	<u>591,284</u>	<u>(82.6)</u>
Net profit	<u><u>2,838,059</u></u>	<u><u>3,504,196</u></u>	<u><u>(666,137)</u></u>	<u><u>(19.0)</u></u>

For the six months ended 30 June 2018, the Bank's profit before tax was RMB2.962 billion, representing a year-on-year decrease of 29.8%; net profit was RMB2.838 billion, representing a year on year decrease of 19.0%; and the net interest income decreased by RMB359 million or 6.6% compared to that in the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.1 Net interest income

Net interest income constituted the largest component of the operating income of the Bank, accounting for 84.8% and 84.5% of the operating income for the six months ended 30 June 2018 and 2017, respectively. The following table sets forth the interest income, interest expense and net interest income of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Interest income	21,078,133	18,443,387	2,634,746	14.3
Interest expense	(15,967,611)	(12,973,887)	(2,993,724)	23.1
Net interest income	5,110,522	5,469,500	(358,978)	(6.6)

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities for the six months ended 30 June 2018 and 2017 are the average balances derived from the Bank's management accounts which have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Interest-earning assets						
Loans and advances to customers	298,408,600	9,092,986	6.09	197,602,719	7,119,989	7.21
Financial investments	354,329,083	10,257,366	5.79	370,009,770	9,377,835	5.07
Deposits with Central Bank	75,207,206	554,149	1.47	60,900,281	435,722	1.43
Deposits with banks and other financial institutions	33,088,661	775,992	4.69	65,615,915	1,185,581	3.61
Financial assets held under resale agreements	4,746,189	66,405	2.80	10,490,949	133,165	2.54
Placements with banks and other financial institutions	21,745,544	320,168	2.94	6,859,165	106,249	3.10
Financial assets held for trading	1,564,444	11,067	1.41	5,700,375	84,846	2.98
Total interest-earning assets	789,089,727	21,078,133	5.34	717,179,174	18,443,387	5.14

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Interest-bearing liabilities						
Borrowings from Central Bank	20,396,519	286,249	2.81	94,650,552	1,390,720	2.94
Deposits from customers	395,305,788	6,498,360	3.29	405,329,360	7,547,691	3.72
Deposits from banks and other financial institutions	93,514,971	3,339,557	7.14	54,011,359	1,358,501	5.03
Financial assets sold under repurchase agreements	70,442,091	1,228,429	3.49	34,045,229	465,268	2.73
Placements from banks and other financial institutions	48,017,957	636,215	2.65	32,503,061	324,851	2.00
Debt securities issued	143,256,419	3,978,801	5.55	76,795,662	1,886,856	4.91
Total interest-bearing liabilities	770,933,745	15,967,611	4.14	697,335,223	12,973,887	3.72
Net interest income		5,110,522			5,469,500	
Net interest spread ⁽¹⁾			1.20			1.42
Net interest margin⁽²⁾			1.30			1.53

Notes:

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rates for the periods indicated. Volume and rate variances have been measured based on movements in average balances over these periods, and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to changes in interest rate.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2018 vs. 2017		
	Increase/ (decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	3,634,052	(1,661,055)	1,972,997
Financial investments	(397,505)	1,277,036	879,531
Deposits with Central Bank	102,295	16,132	118,427
Deposits with banks and other financial institutions	(587,117)	177,528	(409,589)
Financial assets held under resale agreements	(72,958)	6,198	(66,760)
Placements with banks and other financial institutions	230,739	(16,820)	213,919
Financial assets held for trading	(61,625)	(12,154)	(73,779)
Changes in interest income	2,847,881	(213,135)	2,634,746

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2018 vs. 2017		
	Increase/ (decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-bearing liabilities			
Borrowings from Central Bank	(1,091,534)	(12,937)	(1,104,471)
Deposits from customers	(186,438)	(862,893)	(1,049,331)
Deposits from banks and other financial institutions	993,516	987,540	1,981,056
Financial assets sold under repurchase agreements	496,817	266,344	763,161
Placements from banks and other financial institutions	155,149	156,215	311,364
Debt securities issued	<u>1,631,612</u>	<u>460,333</u>	<u>2,091,945</u>
Changes in interest income expense			
	<u>1,999,122</u>	<u>994,602</u>	<u>2,993,724</u>
Changes in net interest income			
	<u>848,759</u>	<u>(1,207,737)</u>	<u>(358,978)</u>

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.
- (2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.
- (3) Represents interest income or expense for the period minus interest income or expense for the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.2 Interest Income

The following table sets forth the breakdown of the interest income of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018		2017	
	Amount	% of total	Amount	% of total
Loans and advances to customers				
Corporate loans (including discounted bills)	8,701,057	41.3	6,906,842	37.4
Personal loans	391,929	1.8	213,147	1.2
Sub-total	9,092,986	43.1	7,119,989	38.6
Financial investments	10,257,366	48.7	9,377,835	50.8
Deposits with Central Bank	554,149	2.6	435,722	2.4
Deposits with banks and other financial institutions	775,992	3.7	1,185,581	6.4
Financial assets held under resale agreements	66,405	0.3	133,165	0.7
Placements with banks and other financial institutions	320,168	1.5	106,249	0.6
Financial assets held for trading	11,067	0.1	84,846	0.5
Total	21,078,133	100.0	18,443,387	100.0

The Bank's interest income increased by 14.3% from RMB18.443 billion for the six months ended 30 June 2017 to RMB21.078 billion for the six months ended 30 June 2018, primarily due to (i) an increase in the yield of financial investments, (ii) an increase in the scale of loans and advances to customers and (iii) an increase in the yield of deposits with banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers was the essential component of the Bank's interest income, accounting for 43.1% and 38.6% of the interest income for the six months ended 30 June 2018 and 2017, respectively. The following table sets forth the average balances of the loans and advances to customers and the average yields of related interest income and loans and advances to customers for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June					
	2018			2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans (including discounted bills)	281,118,813	8,701,057	6.19	188,078,042	6,906,842	7.34
Personal loans	17,289,787	391,929	4.53	9,524,677	213,147	4.48
Total	298,408,600	9,092,986	6.09	197,602,719	7,119,989	7.21

2. Interest Income from Financial Investments

Interest income from financial investments increased by 9.4% from RMB9.378 billion for the six months ended 30 June 2017 to RMB10.257 billion for the six months ended 30 June 2018, mainly due to the increase in yield of investment in asset management scheme, trust beneficiary rights and bond.

3. Interest Income from Deposits with Central Bank

Interest income from deposits with Central Bank increased by 27.2% from RMB436 million for the six months ended 30 June 2017 to RMB554 million for the six months ended 30 June 2018, mainly due to the increase in the average balance of deposits with Central Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased by 34.5% from RMB1.186 billion for the six months ended 30 June 2017 to RMB776 million for the six months ended 30 June 2018, mainly due to the significant decrease in the amount of average balance of the deposits with banks and other financial institutions compared to that in the same period of last year.

5. Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements decreased by 50.1% from RMB133 million for the six months ended 30 June 2017 to RMB66 million for the six months ended 30 June 2018, mainly due to the decrease in average balance of financial assets held under resale agreements.

3.2.1.3 Interest expense

The following table sets forth the principal components of the interest expense of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018		2017	
	Amount	% of total	Amount	% of total
Borrowings from Central Bank	286,249	1.8	1,390,720	10.7
Deposits from customers	6,498,360	40.7	7,547,691	58.2
Deposits from banks and other financial institutions	3,339,557	20.9	1,358,501	10.5
Financial assets sold under repurchase agreements	1,228,429	7.7	465,268	3.6
Placements from banks and other financial institutions	636,215	4.0	324,851	2.5
Debt securities issued	3,978,801	24.9	1,886,856	14.5
Total	15,967,611	100.0	12,973,887	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Expense on Deposits from Customers

The following table sets forth the average balance, interest expense and average cost for each of the components of the Bank's deposits from customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Demand	94,643,962	466,213	0.99	73,833,460	291,631	0.79
Time	187,711,547	3,587,267	3.82	229,602,014	5,130,501	4.47
Sub-total	282,355,509	4,053,480	2.87	303,435,474	5,422,132	3.57
Personal deposits						
Demand	14,189,692	28,523	0.40	14,127,784	28,330	0.40
Time	98,760,587	2,416,357	4.89	87,766,102	2,097,229	4.78
Sub-total	112,950,279	2,444,880	4.33	101,893,886	2,125,559	4.17
Total deposits from customers	395,305,788	6,498,360	3.29	405,329,360	7,547,691	3.72

Interest expense on deposits from customers decreased by 13.9% from RMB7.548 billion for the six months ended 30 June 2017 to RMB6.498 billion for the six months ended 30 June 2018, primarily due to the decline in the average balance and the cost rate of deposit.

2. Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 145.8% from RMB1.359 billion for the six months ended 30 June 2017 to RMB3.340 billion for the six months ended 30 June 2018, primarily due to the significant increase in the average balance.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. *Interest Expense on Financial Assets Sold under Repurchase Agreements*

Interest expense on financial assets sold under repurchase agreements increased by 164.0% from RMB465 million for the six months ended 30 June 2017 to RMB1.228 billion for the six months ended 30 June 2018, primarily due to the significant increase in the average balance of financial assets sold under repurchase agreements.

4. *Interest Expense on Placements from Banks and Other Financial Institutions*

Interest expense on placements from banks and other financial institutions increased by 95.8% from RMB325 million for the six months ended 30 June 2017 to RMB636 million for the six months ended 30 June 2018, mainly due to the combined impact brought by the increase in the average balance of placements from banks and other financial institutions and in the interest rate.

5. *Interest Expense on Debt Securities Issued*

For the six months ended 30 June 2018, the interest expense of the debt securities in issue amounted to RMB3.979 billion, representing an increase of 110.9% or RMB2.092 billion as compared with the same period last year, mainly due to the increase in the average balance and in the interest rate.

3.2.1.4 *Net interest spread and net interest margin*

Net interest spread is the difference between the average yield on the average balance of our total interest-earning assets and the average cost of the average balance of the Bank's total interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Net interest spread of the Bank decreased by 0.22 percentage point from 1.42% for the six months ended 30 June 2017 to 1.20% for the six months ended 30 June 2018, and the net interest margin of the Bank decreased by 0.23 percentage point from 1.53% for the six months ended 30 June 2017 to 1.30% for the six months ended 30 June 2018, primarily due to the increase of the interest rate of interest-bearing liabilities, and detailed reasons are: the interest rate of deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements and debt securities issued were all increased compared to that in the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.5 Non-interest Income

1. Net Fee and Commission Income

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Fee and commission income				
Agency and custody services fees	319,404	1,095,050	(775,646)	(70.8)
Settlement and clearing services fees	108,731	68,291	40,440	59.2
Bank card services fees	21,608	15,278	6,330	41.4
Fee and commission expense	(76,317)	(111,113)	34,796	(31.3)
Net fee and commission income	373,426	1,067,506	(694,080)	(65.0)

The Bank's net fee and commission income decreased from RMB1.068 billion for the six months ended 30 June 2017 to RMB373 million for the six months ended 30 June 2018.

Fee and commission expense primarily include fees paid to third parties for the provision of intermediary services that can be directly classified as expenses related to the provision of such services. Fee and commission expense of the Bank decreased from RMB111 million for the six months ended 30 June 2017 to RMB76 million for the six months ended 30 June 2018.

2. Net Trading Gains/(Losses)

For the six months ended 30 June 2018, change in fair value and gains from disposal arising from the trading assets and derivative financial instruments held by the Bank amounted to RMB1.064 billion, mainly due to the profits and losses from the change in fair value arising from derivative financial instruments held by the Bank incurred at the end of the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Net Gains Arising from Financial Investments

For the six months ended 30 June 2018, the net gains arising from financial investments of the bank amounted to RMB1.181 billion, representing an increase by 2,747.7% or RMB1.140 billion compared to the six months ended 30 June 2017, of which the net gains for the current period on financial assets at fair value through profit or loss for the period amounted to RMB1.017 billion, mainly the change in fair value and gains from disposal arising from public funds.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Net gains on other financial assets at fair value through profit and loss for the period	1,017,157	–	1,017,157	N/A
Net gains on disposal of financial assets at amortised cost	140,044	–	140,044	N/A
Dividends from financial assets designated at fair value through other comprehensive income	15,730	–	15,730	N/A
Net gains on disposal of financial assets at fair value through other comprehensive income	8,476	–	8,476	N/A
Net gains on disposal of available-for-sale financial assets	–	18,376	(18,376)	(100.0)
Dividends from available-for-sale equity investments	–	23,111	(23,111)	(100.0)
Total	1,181,407	41,487	1,139,920	>100

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.6 Operating expenses

For the six months ended 30 June 2018, the operating expenses of the Bank amounted to RMB1.816 billion, representing an increase of RMB170 million or 10.3% compared to that in the same period of last year.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Staff costs	1,022,230	1,002,450	19,780	2.0
Tax and surcharges	18,435	93,408	(74,973)	(80.3)
Depreciation and amortisation	199,488	181,153	18,335	10.1
Rental of property and equipment and property management expenses	114,607	116,489	(1,882)	(1.6)
Office expenses	103,240	106,223	(2,983)	(2.8)
Other general and administrative expenses	358,109	146,212	211,897	>100
Total operating expenses	1,816,109	1,645,935	170,174	10.3

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Staff Costs

The following table sets forth the principal components of the staff costs of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
– Salaries, bonuses and allowances	717,111	731,469	(14,358)	(2.0)
– Pension and annuity	118,429	99,825	18,604	18.6
– Other social insurance	93,954	86,604	7,350	8.5
– Housing allowances	45,458	39,852	5,606	14.1
– Supplementary retirement benefits	3,260	1,181	2,079	>100
– Others	44,018	43,519	499	1.1
Total staff costs	1,022,230	1,002,450	19,780	2.0

For the six months ended 30 June 2018, total staff costs of the Bank amounted to RMB1.022 billion, representing an increase of RMB20 million or 2.0% compared to the six months ended 30 June 2017, primarily due to an increase in the number of employees of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Office Expenses, Rental of Property and Equipment and Property Management Expenses

Office expenses, rental of property and equipment and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. Office expenses, rental of property and equipment and property management expenses for the six months ended 30 June 2018 and the six months ended 30 June 2017 were RMB218 million and RMB223 million, respectively.

3. Depreciation and Amortisation

Depreciation and amortisation increased by 10.1% from RMB181 million for the six months ended 30 June 2017 to RMB199 million for the six months ended 30 June 2018. The increase in depreciation and amortisation was primarily due to the increase in the depreciation of fixed assets driven by the scale up of properties and equipment and the increase in long-term deferred expenses of the Bank, in particular, the renovation costs of leased properties and the expenses for opening business outlets.

4. Other General and Administrative Expenses

Other general and administrative expenses increased by 144.9% from RMB146 million for the six months ended 30 June 2017 to RMB358 million for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.7 Impairment losses on assets

The following table sets forth the principal components of impairment losses on assets of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change (%)
Deposits and placements with bank and other financial institutions	(10,947)	–	(10,947)	N/A
Financial assets held under resale agreements	(4,748)	–	(4,748)	N/A
Loans and advances to customers	1,771,793	583,574	1,188,219	>100
Financial assets at fair value through other comprehensive income	(4,209)	–	(4,209)	N/A
Financial assets at amortised cost	12,339	–	12,339	N/A
Loans and receivables	–	26,000	(26,000)	(100.0)
Credit commitment	(500,360)	–	(500,360)	N/A
Others	(13,211)	(5,737)	(7,474)	>100
Total	1,250,657	603,837	646,820	>100

3.2.1.8 Income tax expense

For the six months ended 30 June 2018, income tax expense of the Bank amounted to RMB124 million, representing a decrease of RMB591 million or 82.6% compared with the same period of last year. The effective tax rate of the Bank was 4.19%, representing a decrease of 12.77 percentage points compared with the same period of last year, mainly due to the significant increase in the Bank's non-taxable income from the PRC government bonds and public funds for the current period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.2 Analysis of the Statement of Financial Position

3.2.2.1 Assets

Total assets of the Bank as at 30 June 2018 and 31 December 2017 were RMB957.950 billion and RMB1,030.617 billion, respectively. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with Central Bank, which accounted for 33.9%, 50.3%, 4.3% and 8.3%, respectively, of total assets of the Bank as at 30 June 2018. The following table sets forth the balances of principal components of total assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Assets				
Gross loans and advances to customers	334,138,845	34.9	279,513,418	27.1
Provision for impairment	(9,325,411)	(1.0)	(7,730,631)	(0.7)
Net loans and advances to customers	324,813,434	33.9	271,782,787	26.4
Financial investments ⁽¹⁾	482,024,356	50.3	566,365,837	55.0
Deposits with banks and other financial institutions	41,669,990	4.3	35,414,260	3.4
Cash and deposits with Central Bank	79,135,200	8.3	84,201,957	8.2
Financial assets held for trading	1,505,351	0.2	-	0.0
Financial assets held under resale agreements	4,594,858	0.5	20,339,752	2.0
Placements with banks and other financial institutions	4,649,198	0.5	34,327,733	3.3
Derivative financial assets	2,220,778	0.2	429,386	0.0
Precious metals	274,310	0.0	274,310	0.0
Other assets ⁽²⁾	17,062,917	1.8	17,481,409	1.7
Total assets	957,950,392	100.0	1,030,617,431	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) As at 30 June 2018, financial investments include financial assets at fair value through other comprehensive income, financial assets at amortised cost and other financial investments at fair value through profit or loss.

As at 31 December 2017, financial investments include held-to-maturity investments, loans and receivables and available-for-sale financial assets, but exclude financial assets at fair value through profit or loss.

- (2) Includes interest receivables, property and equipment, other receivables, deferred income tax assets and other assets.

Total assets of the Bank decreased by 7.1% from RMB1,030.617 billion as at 31 December 2017 to RMB957.950 billion as at 30 June 2018. The decrease in total asset of the Bank from 31 December 2017 to 30 June 2018 was mainly due to decrease in financial investment, financial assets held under resale agreements and placements with banks and other financial institutions of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Loans and Advances to Customers

The total loans and advances to customers made by the Bank as at 30 June 2018 amounted to RMB334.139 billion with an increase of 19.5% compared with the end of the previous year. The gross loans and advances to customers accounted for 34.9% of the total assets with an increase of 7.8 percentage points compared with the end of the previous year.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Corporate loans	312,115,899	93.4	262,549,690	94.0
Personal loans				
– Residential mortgage	14,054,632	4.2	9,227,270	3.3
– Personal consumption loans	3,858,017	1.2	3,988,457	1.4
– Credit cards	697,956	0.2	674,173	0.2
– Personal business loans	890,919	0.3	1,062,927	0.4
– Others	35,630	0.0	55,372	0.0
Discounted bills	2,485,792	0.7	1,955,529	0.7
Total loans and advances to customers	334,138,845	100.00	279,513,418	100.00

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The loans and advances to customers made by the Bank consisted mainly of corporate loans (including discounted bills) and personal loans. Corporate loans constituted the largest component of the Bank's loan portfolio. As at 30 June 2018 and 31 December 2017, the corporate loans (including discounted bills) of the Bank amounted to RMB314.602 billion and RMB264.505 billion, respectively, and accounted for 94.1% and 94.6% of the total loans and advances to customers made by the Bank, respectively.

The corporate loans (including discounted bills) of the Bank increased by 18.9% from RMB264.505 billion as at 31 December 2017 to RMB314.602 billion as at 30 June 2018, mainly attributable to the fact that: (i) the Bank focuses on the real economy to increase its efforts in promoting corporate loans, continuously innovates products, and continuously improves the ability to serve for transformation and development of real economy; (ii) the Bank continues to increase loans granted to core high-quality clients in key industries and various enterprises, including wholesale and retail and manufacturing industries, leading to continuous increase in balance of relevant loans.

Personal loans offered by the Bank mainly include residential mortgage, personal consumption loans, credit cards, personal business loans and other personal loans. As at 30 June 2018, the balance of personal loans amounted to RMB19.537 billion with an increase of RMB4.529 billion or 30.2% compared with the end of last year, representing 5.9% of total loans and advances to customers. Among personal loans, residential mortgage increased by RMB4.827 billion or 52.3% compared to that at the end of last year, which was mainly driven by the market demand for the personal residential mortgages; personal consumption loans decreased by RMB130 million or 3.3% compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) Loans by collateral

As at 30 June 2018 and 31 December 2017, loans secured by mortgages, pledges or guaranteed, in aggregate, represented 94.2% and 93.4% of the total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such a loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Loans secured by mortgages	112,851,386	33.8	109,919,300	39.3
Loans secured by pledges	62,891,468	18.8	25,017,254	9.0
Guaranteed loans	139,047,142	41.6	126,048,740	45.1
Unsecured loans	19,348,849	5.8	18,528,124	6.6
Total loans and advances to customers	334,138,845	100.0	279,513,418	100.0

The structure of collaterals of the Bank's loans was stable and the Bank's capability of mitigating risks was relatively solid. As at 30 June 2018, the balance of loans secured by mortgages, pledges and guaranteed amounted to RMB314.790 billion, with an increase of RMB53.805 billion or 20.6% compared to that at the end of last year, representing 94.2% of total loans and advances to customers which increased as compared with that at the end of the previous year; the balance of unsecured loans was RMB19.349 billion, with an increase of RMB821 million from the end of last year, accounting for 5.8% of total loans and advances to customers which decreased as compared with that at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2) Changes in provision for impairment on loans and advances to customers

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

	As at 30 June 2018				As at 31 December 2017			
	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without credit impairment loss	A lifetime expected credit loss – loans with credit impairment loss	Total	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total
Balance as at the beginning of the period	3,347,500	1,382,476	2,929,100	7,659,076	4,379,900	102,589	2,053,429	6,535,918
Transferred to:								
-to expected credit loss over the next 12 months	(200,532)	198,430	2,102	-	-	-	-	-
-to lifetime expected credit losses: not credit-impaired loans	228,222	(377,778)	149,556	-	-	-	-	-
-to lifetime expected credit losses: credit-impaired loans	1,629	370	(1,999)	-	-	-	-	-
Net (release)/charge for the period	(1,722,702)	4,069,885	(583,761)	1,763,422	1,126,486	18,571	167,555	1,312,612
Unwinding of discount	-	-	(60,563)	(60,563)	-	-	(110,278)	(110,278)
Write-offs	-	-	(36,543)	(36,543)	-	(8,866)	-	(8,866)
Recoveries	-	-	19	19	-	27	1,218	1,245
Balance as at the end of the period	<u>1,654,117</u>	<u>5,273,383</u>	<u>2,397,911</u>	<u>9,325,411</u>	<u>5,506,386</u>	<u>112,321</u>	<u>2,111,924</u>	<u>7,730,631</u>

Provision for impairments on loans and advances to customers increased by 20.6% from RMB7.731 billion as at 31 December 2017 to RMB9.325 billion as at 30 June 2018, mainly due to the fact that the Bank moderately increased the level of provision for loans and advances to customers in response to the changes in the macroeconomic situation and related requirements of the regulatory departments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Financial Investments

As at 30 June 2018, the financial investments (including financial assets at fair value through other comprehensive income, financial assets at amortised cost, other financial assets at fair value through profit or loss, but excluding financial assets held for trading) of the Bank amounted to RMB482.024 billion, and as at 31 December 2017, the financial investments (including loans and receivables, available-for-sale financial assets and held-to-maturity investments) of the Bank amounted to RMB566.366 billion, representing 50.3% and 55.0% of the total assets of the Bank, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	
	Amount	% of total
Financial assets at fair value through other comprehensive income		
	43,488,281	9.0
– Bonds issued by policy banks	23,090,237	4.7
– Government bonds	4,634,529	1.0
– Bonds issued by other banks and financial institutions	4,157,424	0.9
– Corporate bonds	5,333,675	1.1
– Asset management scheme	5,660,041	1.2
– Equity investments	612,375	0.1
Financial assets at amortised cost	352,485,136	73.1
– Bonds issued by policy banks	86,414,970	17.8
– Government bonds	85,114,086	17.7
– Bonds issued by other banks and financial institutions	7,028,283	1.5
– Corporate bonds	20,727,743	4.3
– Asset management scheme	69,924,816	14.5
– Investment in trust beneficiary rights	84,641,341	17.6
Less: provisions for financial assets at amortised cost	(1,366,103)	(0.3)
Other financial assets at fair value through profit or loss	86,050,939	17.9
– Bonds issued by other banks and financial institutions	2,673,833	0.6
– Corporate bonds	1,043,122	0.2
– Asset management scheme	69,230,203	14.4
– Wealth management products issued by financial institutions	12,568,910	2.6
– Investment fund	534,871	0.1
Total	482,024,356	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	
	Amount	% of total
Available-for-sale financial assets	103,729,104	18.4
– Bonds issued by policy banks	18,086,614	3.2
– Government bonds	2,579,626	0.5
– Bonds issued by other banks and financial institutions	20,235,766	3.6
– Corporate bonds	7,661,698	1.4
– Wealth management products issued by financial institutions	4,710,000	0.8
– Investment fund	50,071,375	8.8
– Equity investments	384,025	0.1
Held-to-maturity investments	224,536,165	39.6
– Bonds issued by policy banks	91,460,083	16.1
– Government bonds	107,016,384	18.9
– Bonds issued by other banks and financial institutions	25,166,186	4.4
– Corporate bonds	893,512	0.2
Investments classified as loans and receivables	238,100,568	42.0
– Asset management scheme	137,276,867	24.2
– Investment in trust beneficiary rights	99,736,701	17.6
– Wealth management products issued by financial institutions	2,500,000	0.4
Less: provisions for loans and receivables	(1,413,000)	(0.2)
Total	566,365,837	100.0

The net financial investments of the Bank decreased by 14.9% from RMB566.366 billion as at 31 December 2017 to RMB482.024 billion as at 30 June 2018, mainly due to the fact that the Bank reduced its holdings of approximately RMB49.537 billion in public funds and approximately RMB33.078 billion of certificates of interbank deposit during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 1) Changes in the provision for financial assets at fair value through other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018				Total	
	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without credit impairment loss	A lifetime expected credit loss – loans with credit impairment loss			
	Adjusted balance at the beginning of the period	8,801	–	–		8,801
	Net release for the period	(4,209)	–	–		(4,209)
Balance as at the end of the period	4,592	–	–	4,592		

- 2) Changes in the provision for financial assets at amortised cost

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018				Total	
	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without credit impairment loss	A lifetime expected credit loss – loans with credit impairment loss			
	Adjusted balance at the beginning of the period	1,243,608	52,321	57,835		1,353,764
	– Expected credit losses over the next 12 months	(9,662)	–	9,662		–
Net (release)/charge for the period	(705,136)	(52,321)	769,796	12,339		
Balance as at the end of the period	528,810	–	837,293	1,366,103		

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 3) Changes in the provision for investments classified as loans and receivables

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017
Balance at the beginning of the period	(1,279,000)
Provision for the period	<u>(134,000)</u>
Balance as at the end of the period	<u><u>(1,413,000)</u></u>

3.2.2.2 Liabilities

As at 30 June 2018 and 31 December 2017, the total liabilities of the Bank were RMB903.955 billion and RMB978.362 billion, respectively. The Bank's liabilities mainly consisted of (i) deposits from customers; (ii) debt securities issued; and (iii) deposits from banks and other financial institutions, accounting for 55.8%, 23.5% and 4.5%, respectively, with respect to the Bank's total liabilities as at 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the components of the Bank's total liabilities as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Borrowings from Central Bank	39,430,000	4.4	48,160,000	4.9
Deposits from customers	504,865,803	55.8	473,580,808	48.4
Deposits from banks and other financial institutions	40,497,105	4.5	153,651,596	15.7
Financial liabilities at fair value through profit or loss	15,698,127	1.7	18,553,887	1.9
Derivative financial liabilities	1,880,900	0.2	1,268,879	0.1
Financial assets sold under repurchase agreements	33,791,697	3.7	75,623,265	7.7
Debt securities issued	212,183,017	23.5	140,920,240	14.4
Placements from banks and other financial institutions	39,766,384	4.4	51,323,948	5.2
Other liabilities ⁽¹⁾	15,842,014	1.8	15,279,152	1.7
Total	903,955,047	100.0	978,361,775	100.0

Note:

- (1) Including interest payable, amounts in settlement accounts, staff remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

1. Deposits from Customers

The Bank provides demand and time deposit products to corporate and personal customers. The following table sets forth the Bank's deposits from customers and product types as of the dates indicated:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	121,582,289	24.1	114,625,939	24.2
Time deposits	186,636,303	37.0	172,364,434	36.4
Other deposit ⁽¹⁾	40,853,685	8.0	44,510,246	9.4
Sub-total	349,072,277	69.1	331,500,619	70.0
Personal deposits				
Demand deposits	15,985,384	3.2	14,551,352	3.1
Time deposits	139,808,142	27.7	127,528,837	26.9
Sub-total	155,793,526	30.9	142,080,189	30.0
Total	504,865,803	100.0	473,580,808	100.0

Note:

(1) Mainly including pledged deposits.

As at 30 June 2018, the Bank's total deposits from customers amounted to RMB504.866 billion, with an increase of RMB31.285 billion or 6.6% as compared with the number recorded at the end of the previous year. Total deposits from customers accounted for 55.8% with respect to the total liabilities, representing an increase of 7.4 percentage points as compared with the end of the previous year.

In 2018, the Bank's deposits from customers experienced an increase in time deposits, reflecting the change in customers' preference regarding deposits and the fact that the Bank has moderately increased the proportion of time deposits in order to optimize the deposit maturity structure and improve the stability of deposits. As at 30 June 2018, time deposits accounted for 64.7% of total deposits from customers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018 Amount	As at 31 December 2017 Amount
Tier-two Capital fixed rate debts maturing in May 2024	2,200,000	2,200,000
Tier-two Capital fixed rate debts maturing in December 2025	10,000,000	10,000,000
Tier-two Capital fixed rate debts maturing in December 2027	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2019	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Certificates of Interbank deposit	186,983,017	115,720,240
Total	212,183,017	140,920,240

The Bank issued Tier-two Capital bonds of commercial banks in the aggregate of RMB2.2 billion in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem all or part of the current bonds in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank issued Tier-two Capital bonds of commercial banks in the aggregate of RMB10 billion on the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem all or part of the current bonds in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued Tier-two Capital bonds of commercial banks in the aggregate of RMB6 billion on the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The interest is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem all or part of the current bonds in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds. °

The Bank issued 2016 financial fixed rate bonds in the aggregate of RMB5 billion on 26 August 2016 with a term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued 2016 financial fixed rate bonds in the aggregate of RMB2 billion on 26 August 2016 with a term of maturity of 5 years and an annual coupon rate of 3.10%.

For the six months ended 30 June 2018, the Bank in total issued the interbank certificates of deposit of RMB383.500 billion with the coupon rate between 3.00% to 5.00%. The method of interest payment is to pay on a quarterly basis and in a lump sum. The amount of such interbank certificates of deposit that have matured was RMB205.520 billion.

As at 30 June 2018, the balance of certificates of interbank deposit issued by the Bank was RMB186.983 billion, representing an increase of 61.6% compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.2.3 Equity

The following table sets forth the components of the equity of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Share capital	5,796,680	10.7	5,796,680	11.1
Capital reserve	11,855,505	22.0	11,855,505	22.7
Surplus reserve	6,110,162	11.2	5,352,502	10.2
General reserve	12,571,840	23.3	11,034,031	21.1
Fair value reserve	365,263	0.7	(335,375)	(0.6)
Provision reserve	10,458	0.0	–	0.0
Deficit on remeasurement of net defined benefit liability	(7,750)	(0.0)	(6,076)	(0.0)
Retained earnings	16,721,652	31.0	17,984,108	34.4
Non-controlling interests	571,535	1.1	574,281	1.1
Total equity	53,995,345	100.0	52,255,656	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.3 Loan quality analysis

3.2.3.1 Breakdown of loans by the five-category classification system

Breakdown of loans by the five-category classification system

The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated. The non-performing loans of the Bank are classified into loans and advances to customers that are substandard, doubtful and loss. As at 30 June 2018, the non-performing loans amounted to RMB4.917 billion, and the total provision for impairment on loans and advance to customers of the Bank amounted to RMB9.325 billion. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Normal	304,983,712	91.2	270,618,933	96.8
Special mention	24,238,306	7.3	4,738,655	1.7
Substandard	4,648,796	1.4	3,892,356	1.4
Doubtful	234,799	0.1	226,086	0.1
Loss	33,232	0.0	37,388	0.0
Total loans and advance to customers	334,138,845	100.00	279,513,418	100.00
Non-performing loan	4,916,827	1.47	4,155,830	1.49

As at 30 June 2018 and 31 December 2017, the non-performing loan ratio of the Bank's total loan portfolio was 1.47 % and 1.49%, respectively. During such periods, the non-performing loan rate of the Bank was decreased. The decrease in the Bank's non-performing loan rate was mainly due to the enlargement of the scale of loans and advances to customers by the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.3.2 Concentration of loans

1. Concentration in terms of Industry and Distribution of Non-performing Loans

Corporate loans consist of loans to customers in a broad range of industries. The following table sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018				As at 31 December 2017			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail	147,524,585	44.2	563,586	0.38	100,926,576	36.1	402,498	0.40
Manufacturing	43,398,658	13.0	4,011,148	9.24	40,540,165	14.5	3,251,045	8.02
Renting and business activities	42,570,362	12.6	10,991	0.03	43,369,518	15.6	4,991	0.01
Real estate	24,559,456	7.4	13,922	0.06	28,298,413	10.1	13,922	0.05
Construction	14,726,179	4.4	35,794	0.24	10,241,283	3.7	286,594	2.80
Information transmission, software and information technology services	6,415,945	1.9	30,000	0.47	-	-	-	-
Accommodation and catering	6,005,047	1.8	8,760	0.15	6,151,850	2.2	8,760	0.14
Production and supply of electric power, heat, gas and water	5,180,319	1.6	18,325	0.35	4,624,882	1.7	-	-
Transportation, storage and postal services	4,961,027	1.5	58,700	1.18	7,529,093	2.7	2,000	0.03
Water, environmental and public facilities management	3,628,250	1.1	-	-	1,696,850	0.6	-	-

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018				As at 31 December 2017			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Agriculture, forestry, animal husbandry and fishery	2,959,889	0.9	19,950	0.67	2,618,419	0.9	58,000	2.22
Mining	2,727,397	0.8	-	-	2,821,800	1.0	-	-
Culture, sports and entertainment	1,795,274	0.5	10,000	0.56	2,527,612	0.9	10,000	0.40
Public administration and social organisation	-	-	-	-	180,000	0.1	-	-
Others	5,663,511	1.7	4,988	0.09	11,023,229	3.9	4,988	0.05
Discounted bills	2,485,792	0.7	-	-	1,955,529	0.7	-	-
Personal loans	19,537,154	5.9	130,663	0.67	15,008,199	5.3	113,032	0.75
Total	334,138,845	100.00	4,916,827	1.47	279,513,418	100.00	4,155,830	1.49

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

As at 30 June 2018, loans provided to customers of (i) wholesale and retail, (ii) manufacturing, (iii) renting and business activities sectors and (iv) real estate represented the largest components of the Bank's corporate loans. As at 30 June 2018 and 31 December 2017, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB258.053 billion and RMB213.135 billion, respectively, accounting for 77.2% and 76.3%, respectively, with respect to the Bank's total loans and advances to customers. From the perspective of the structure of the increase, the water, environment and public facilities management sector and the wholesale and retail sector experienced the largest increment, in the amount of RMB1.931 billion and RMB46.598 billion respectively, i.e. by 113.8% and 46.2% respectively. The Bank focused on the relevant portfolio of industry loans and gradually optimized the industry structure of loans.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Concentration in terms of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers as at 30 June 2018. As of the same date, all such loans were classified as normal loans.

Customer	Industry involved	As at 30 June 2018	
		Amount	% of total
(Expressed in thousands of Renminbi, unless otherwise stated)			
Customer A	Real estate	6,139,979	1.84
Customer B	Renting and business activities	5,279,610	1.58
Customer C	Wholesale and retail	5,000,000	1.50
Customer D	Manufacturing	4,691,300	1.40
Customer E	Renting and business activities	4,025,000	1.20
Customer F	Wholesale and retail	3,900,000	1.17
Customer G	Wholesale and retail	3,400,000	1.02
Customer H	Water, environment and public facilities management	2,960,000	0.89
Customer I	Real estate	2,700,000	0.81
Customer J	Manufacturing	2,700,000	0.81

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Distribution of Non-performing Loans by Product Type

The following table sets forth the loans and non-performing loans by product type as of the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018			As at 31 December 2017		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	314,601,691	4,786,164	1.52	264,505,219	4,042,798	1.53
Short-term loans	141,404,894	4,688,961	3.32	113,812,617	4,015,798	3.53
Medium and long term loans	170,711,005	97,203	0.06	148,737,073	27,000	0.02
Discounted bills	2,485,792	-	0.00	1,955,529	-	0.00
Retail loans	19,537,154	130,663	0.67	15,008,199	113,032	0.75
Residential mortgage	14,054,632	70,175	0.50	9,227,270	56,170	0.61
Personal business loans	890,919	11,986	1.35	1,062,927	14,332	1.35
Personal consumption loans	3,858,017	29,124	0.75	3,988,457	19,564	0.49
Credit card overdrawn	697,956	18,778	2.69	674,173	22,266	3.30
Other	35,630	600	1.68	55,372	700	1.26
Total	334,138,845	4,916,827	1.47	279,513,418	4,155,830	1.49

As at 30 June 2018 and 31 December 2017, the non-performing loan ratio of the Bank, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 1.47% and 1.49%, respectively.

As at 30 June 2018 and 31 December 2017, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.52% and 1.53%, respectively.

As at 30 June 2018 and 31 December 2017, the non-performing loan ratio of the Bank's personal loan was 0.67% and 0.75%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Overdue Loans and Advances to Customers

The following table sets forth the aging analysis of the Bank's overdue loans and advances to customers as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
Overdue within 3 months (inclusive)	16,199,982	77.5	1,244,158	23.4
Overdue more than 3 months and within 1 year (inclusive)	1,091,720	5.2	636,084	12.0
Overdue more than 1 year and within 3 years (inclusive)	3,330,894	16.0	3,244,589	61.1
Overdue more than 3 years	269,286	1.3	187,423	3.5
Total overdue loans and advances to customers	20,891,882	100.0	5,312,254	100.0

Note: Overdue loans and advances to customers include credit card advances.

3.2.4 Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the CBIRC. As at 30 June 2018, the Bank's capital adequacy ratios at all tiers met the regulatory requirements of the new regulation. The Bank's core Tier-one Capital adequacy ratio and Tier-one Capital adequacy ratio were both 8.62%, decreased by 0.42 percentage point from the end of the previous year; the capital adequacy ratio was 12.28%, decreased by 0.57 percentage point from the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	As at 31 December 2017
Core capital		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	6,110,162	5,352,502
– General reserve	12,571,840	11,034,031
– Fair value reserve	365,263	(335,375)
– Provision reserve	10,458	–
– Retained earnings	16,721,652	17,984,108
– Qualifying portions of non-controlling interests	34,407	31,285
– Others	(7,750)	(6,076)
Core Tier-one Capital	53,458,217	51,712,660
Core Tier-one capital deductions	(108,150)	(108,088)
Net Core Tier-one Capital	53,350,067	51,604,572
Other Tier-one capital	–	–
Net Tier-one Capital	53,350,067	51,604,572
Tier-two capital		
– Qualifying portions of tier-two capital instruments issued	18,200,000	18,200,000
– Surplus provision for loan impairment	4,408,584	3,574,801
– Core Tier-two capital deductions	–	–
Net tier-two capital	22,608,584	21,774,801
Net capital base	75,958,651	73,379,373
Total risk weighted assets	618,651,567	571,122,793
Core tier-one capital adequacy ratio	8.62%	9.04%
Tier-one capital adequacy ratio	8.62%	9.04%
Capital adequacy ratio	12.28%	12.85%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.5 Segment information

3.2.5.1 Summary of regional branches

The Bank is mainly operating within China. Its head office and 18 branches are located in five provinces and municipalities directly under the Central Government. It also established seven subsidiaries in Liaoning Province, Shanghai and Zhejiang Province.

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating revenue				Non-current assets			
	For the six months ended 30 June				As at 30 June 2018		As at 31 December 2017	
	2018		2017		Amount	Percentage	Amount	Percentage
	Amount	Percentage	Amount	Percentage				
					(%)		(%)	
Northeast China	5,069,834	84.1	5,506,354	85.1	5,169,912	93.9	5,169,995	93.5
North China	848,244	14.1	730,088	11.3	309,508	5.6	327,394	5.9
Others	110,934	1.8	232,997	3.6	27,675	0.5	34,121	0.6
Total	6,029,012	100.0	6,469,439	100.0	5,507,095	100.0	5,531,510	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.5.2 Summary of business segments

The Bank manages its business by dividing its business into several business segment based on business lines and geographical areas. The business segments have been reported in the same way as such information is reported internally, which is provided to the Bank's management for allocating resources to and evaluating results of the business segments. The Bank identified the following segments to be reported based on the business segments:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June			
	2018		2017	
	Amount	% of total	Amount	% of total
Operating revenue				
Corporate banking	3,844,543	63.8	4,233,612	65.4
Personal banking	410,772	6.8	494,666	7.6
Treasury business	1,763,361	29.2	1,712,674	26.5
Others	10,336	0.2	28,487	0.5
Total	6,029,012	100.0	6,469,439	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.6 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptances, issued letters of credit, issued letters of guarantee, unused credit card commitments, operating lease commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptances, issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptances are commitments made by the Bank to encash a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. As at 30 June 2018, the following table sets forth the Bank's credit commitments and other off-balance sheet items as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	As at 31 December 2017
Unused credit card commitments	2,849,036	2,246,054
Guarantees, bank acceptances and letters of credit	162,301,122	170,781,889
Operating lease commitments	775,476	670,345
Capital commitments	408,517	506,604
Pledged assets	152,739,352	230,677,111
Total	319,073,503	404,882,003

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3 BUSINESS OVERVIEW

3.3.1 Corporate Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June		
	2018	2017	Change rate (%)
External net interest income	3,663,696	1,359,864	>100
Internal net interest income	18,063	2,090,178	(99.1)
Net interest income	3,681,759	3,450,042	6.7
Net fee and commission income	159,318	782,109	(79.6)
Other operating income	3,466	1,461	>100
Impairment losses on assets	(1,762,582)	(567,837)	>100
Operating expenses	(1,157,187)	(1,197,743)	(3.4)
– Depreciation and amortisation	(145,717)	(135,429)	7.6
– Others	(1,011,470)	(1,062,314)	(4.8)
Profit before taxation	924,774	2,468,032	(62.5)
Capital expenditure	127,883	240,545	(46.8)
(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	As at 31 December 2017	Change rate (%)
Segment assets	365,974,214	306,888,617	19.3
Segment liabilities	354,515,729	347,859,946	1.9

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.1.1 Corporate Deposits

The Bank actively enforced the strategy of customer development, further implemented customer-oriented marketing approaches, continuously improved the deposit contribution from strategic customers, dug out potential fiscal capital, maintained a steady growth in basic customers and further expanded the scale of cash collection from customers and agency settlement. As at 30 June 2018, the balance of corporate deposits of the Bank amounted to RMB349.072 billion, which accounted for 69.1% of the balance of total deposits, and led to an increase of RMB17.572 billion or 5.3% compared to last year.

According to the information provided by the Business Management Department of the PBOC Shenyang Branch, as at 30 June 2018, the balance of Renminbi corporate deposits with the Bank in Shenyang area amounted to RMB305.537 billion, ranking first among the banks in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area represent a market share of 30%, increased by 5 percentage points from the end of last year.

3.3.1.2 Corporate Loans

The Bank played the basic role of credit funds to serve the real economy development and optimised the allocation of its credit resources. It increased credit granting to quality industries and customers as well as mainstream industries and customers. As at 30 June 2018, the balance of our corporate loans (excluding discounted bills) amounted to RMB312.116 billion, representing an increase of RMB49.566 billion or 18.9% as compared to last year.

First, the Bank vigorously expanded strategic customers in new areas to achieve industry dispersion and risk dispersion. It expanded upstream and downstream supply chain finance of large enterprises through marketing, provided supporting financing, and seized opportunities for its involvement in emerging market industries.

Second, the Bank refined and enhanced the financial services for small and micro enterprises, the “agriculture, rural areas and farmers” (三農) economy and other weak economic and social sectors. It increased credit support for small and micro enterprises in the people’s livelihood areas such as consumer services, medical and health care, and cultural education, and steadily developed high-quality “dual innovation” small and micro enterprise credit business in national high-tech parks.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Third, the Bank supported the industries with overcapacity for “reducing capacity, reducing inventory and reducing leverage”. In accordance with the principle of total volume control and structural adjustment, the Bank focused on structural adjustment on the basis of total volume control. The Bank actively and steadily resolved overcapacity in steel, coal, and cement manufacturing, and sped up the work of “reducing inventory” of properties.

3.3.2 Retail Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June		
	2018	2017	Rate of Change (%)
External net interest expense	(2,054,531)	(1,912,411)	7.4
Internal net interest income	2,285,868	2,134,699	7.1
Net interest income	231,337	222,288	4.1
Net fee and commission income	178,721	271,641	(34.2)
Other operating income	714	737	(3.1)
Impairment losses on assets	4,000	(10,000)	N/A
Operating expenses	(366,396)	(335,515)	9.2
– Depreciation and amortization	(46,577)	(39,047)	19.3
– Others	(319,819)	(296,468)	7.9
Profit before taxation	48,376	149,151	(67.6)
Capital expenditure	40,877	69,353	(41.1)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at	As at	Rate of Change (%)
	30 June 2018	31 December 2017	
Segment assets	29,504,182	31,484,360	(6.3)
Segment liabilities	163,504,060	149,457,550	9.4

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.2.1 Personal Deposits

The Bank continued to be driven by product innovation, relying on structural deposits, intelligent saving, certificate of sizable deposits, special deposit certificates, product portfolios and other comprehensive product lines to promote business. The Bank continued to exploit its strength in agency collection and payment and utilities agent to enhance its efforts on maintaining and increasing deposits, strengthening customer cross-marketing to drive the growth of personal deposits. As at 30 June 2018, the balance of our personal deposits amounted to RMB155.794 billion, representing an increase of RMB13.713 billion or 9.7% compared to the end of the previous year, of which the balance of Shenyang area amounted to RMB126.373 billion, representing 18.3% of the balance of all financial institutions in Shenyang. The increase in our deposits amounted to RMB8.658 billion, representing a share of 27.1% of the total increase of all financial institutions in Shenyang. Both our balance of and increase in deposits ranked the first in Shenyang.

3.3.2.2 Personal Loans

The Bank continued to follow up and meet the needs of customers' housing and consumption upgrades, and promoted the rapid growth of personal loan business. As of 30 June 2018, personal loans (including mortgage loans, personal consumption loans, credit cards, personal business loans and others) increased by RMB4.529 billion or 30.2% to RMB19.537 billion as compared to the end of the previous year, of which personal mortgage loans increased by RMB4.827 billion or 52.3% to RMB14.055 billion compared to the end of the previous year.

3.3.2.3 Bank Cards

The Bank vigorously promoted the bank cards bundle marketing of easy payment through bank cards, expanded the payment application in life and consumption scenarios such as campuses, supermarkets, and markets to continuously improve the customer card use experience, which resulted in continuous growth in card issuance and transaction volume. As at 30 June 2018, the Bank has issued 12.1404 million debit cards in total, representing an increase of 0.5148 million compared to the beginning of the year, with total expenditures of RMB16.411 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.2.4 Wealth Management Business

Adhering to a prudent investment philosophy, the Bank optimized the basic asset structure and continuously implemented product innovation and function optimization, and with the increasing competitiveness of product types and business function, the value of its wealth management brands is steadily increasing. As at 30 June 2018, the Bank offered a total of 419 tranches of wealth management products, amounting to RMB58.142 billion, with a renewed balance of RMB49.535 billion. The Bank gained an income of RMB187 million from wealth management. The Bank was awarded the “Outstanding Urban Commercial Bank” (優秀城商行) by China Banking Wealth Management Product Registration and Depository Center for wealth management information registration for two consecutive years.

3.3.3 Capital and Investment Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June		
	2018	2017	Rate of change (%)
External net interest income	3,501,357	6,022,047	(41.9)
Internal net interest expense	(2,303,931)	(4,224,877)	(45.5)
Net interest income	1,197,426	1,797,170	(33.4)
Net fee and commission income	35,387	13,756	>100
Net trading gains/(losses)	1,064,286	(685,600)	N/A
Net gains arising from investments	1,180,527	18,376	>100
Net foreign exchange (losses)/ gains	(1,719,387)	568,972	<(100)
Other operating income	5,122	–	N/A
Impairment losses on assets	507,925	(26,000)	N/A
Operating expenses	(289,397)	(111,826)	>100
– Depreciation and amortisation	(7,194)	(6,677)	7.7
– Others	(282,203)	(105,149)	>100
Profit before taxation	1,981,889	1,574,848	25.8
Capital expenditure	6,314	11,860	(46.8)

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018	As at 31 December 2017	Rate of change (%)
Segment assets	560,600,557	689,886,627	(18.7)
Segment liabilities	384,794,666	480,907,987	(20.0)

3.3.3.1 Treasury Business

In the first half of 2018, under the background of structural deleveraging of domestic macro economy, the scale of social financing and the growth rate of M2 dropped significantly. The PBOC adopted a series of monetary policy tools such as targeted reserve requirements ratio cuts to maintain liquidity. In the first half of the year, based on the loose liquidity and the expected slowdown of the macro economy, the interest rate of the capital market fell sharply. The Bank optimized its asset structure with light assets and light capital as its orientation, implemented diversified strategic initiatives, put efficiency and quality at the forefront to achieve balanced development of benefits, quality and scale. As of 30 June 2018, the profit before tax of treasury business of the Bank amounted to RMB1.982 billion, representing an increase of RMB0.407 billion as compared with the same period last year.

1. Money Market Transactions

The Bank acquired the qualification for derivatives transaction and precious metal transaction in 2016, which further expanded its financing channels. In the first half of the year, the Bank made full use of the comprehensively diversified financing model of domestic and foreign currency, rationally arranged financing strategies to effectively respond to fluctuations in the capital market, and timely reduce the duration of liabilities and optimize the financing structure. As at 30 June 2018, the balance of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements was RMB114.055 billion, representing 12.6% of total liabilities of the Bank. The balance of deposits and placements with banks and other financial institutions and financial assets held under resale agreements was RMB50.914 billion, representing 5.3% of the total assets of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Investments in Securities and Other Financial Assets

In the first half of 2018, the Bank seized the market conditions and adjusted its investment strategy for treasury business in a timely manner. Firstly, the Bank optimized the bond position structure. It appropriately lengthened the bond duration at the beginning of the year when the interest rate was high, and after the interest rate decreased, it sold short-term premium bonds to increase the net income level of investment. Secondly, the Bank adhered to the light capital business orientation to allocate priority asset-backed securities products to improve the income level of asset portfolio, and realize light capital operation. Thirdly, the Bank flexibly allocated public fund investment to improve asset liquidity and level of net profit after tax. Fourthly, the Bank prudently increased investment in structured financing business, steadily adjusted the development model, and continuously optimized the business structure, resulting in continuous improvement in the income level and development quality and effectiveness.

1) Securities investment by business model and holding purpose

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Financial assets at fair value through other comprehensive income	43,488,281	9.0	-	-
Financial assets at amortised cost	352,485,136	73.1	-	-
Other financial assets at fair value through profit or loss	86,050,939	17.9	-	-
Available-for-sale financial assets	-	-	103,729,104	18.3
Held-to-maturity investments	-	-	224,536,165	39.6
Loans and receivables	-	-	238,100,568	42.1
Total	482,024,356	100.0	566,365,837	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 30 June 2018, the net financial investment of the Bank decreased by RMB84.341 billion compared to the end of previous year.

2) Securities investment by term to maturity

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2018		As at 31 December 2017	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Less than three months (inclusive)	43,142,906	8.9	89,321,039	15.8
Between three months and twelve months (inclusive)	190,246,438	39.5	166,501,050	29.4
Between one and five years (inclusive)	140,783,996	29.2	221,666,104	39.1
More than five years	107,851,016	22.4	88,877,644	15.7
Total	482,024,356	100.0	566,365,837	100.0

As at 30 June 2018, the Bank's securities investment with a term to maturity of less than 12 months decreased by RMB22.433 billion compared to the end of the previous year, representing an increase of 3.2% as to the proportion to the total securities investment.

3.3.4 Trade Finance

In the first half of 2018, exposed to stricter regulatory policy, the Bank always adheres to the target of serving the real economy. It actively constructs a customer-centric transaction banking product system by analysing the change in market trend and demand of main market players to deepen the financial development of supply chain, accelerate the innovation of service platforms, effectively prevent and control risks, comply with regulations, and continuously improve the ability of trade finance services.

In the first half of 2018, all trade finance indicators demonstrated a steady growth. The settlement amount reached USD6.307 billion, representing a year-on-year increase of 38%. The Bank realized a gain of RMB938 million, representing a year-on-year increase of 45%.

3.3.5 Distribution Channels

3.3.5.1 Physical Outlets

As at 30 June 2018, the Bank operated businesses through its head office, three branch-level specialised institutions and 198 branches and sub-branches covering 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning province. These institutions are mostly located in economically developed regions such as Northeast China, the Bohai Rim and the Yangtze River Delta Economic Zone, which enjoy advantageous policies and greater market opportunities. According to the outlets construction plan of the Bank in 2018, in the first half of the year, one new sub-branch was opened, six traditional sub-branches and two sub-branches for small and micro enterprises were prepared to be established, which have deepened the network layout of “focusing on its base operations in Shenyang and expanding beyond Liaoning Province and Northeast China to the whole country”.

3.3.5.2 Self-service Banking

The Bank’s self-service banking facilities include ATMs, cash recycling systems, inquiry and payment machines, card activating machines, VTMs, online banking machines, mobile banking machines, smart queuing machines and community smart terminals. In the first half of 2018, the Bank continued to increase its investment in self-service equipment, enriched machine types, improved outlet productivity and enhanced customer experience. As at 30 June 2018, the Bank owned 2,509 self-service facilities, including 324 ATMs, 291 cash recycling systems, 131 inquiry and payment machines, 162 card activating machines, 22 VTMs, 24 online banking machines, 24 mobile banking machines, 11 smart queuing machines and 1,520 community smart terminals, providing its customers with services such as cash withdrawal, account inquiry, cash deposit, change of password and fund transfer.

3.3.5.3 Electronic Banking

The Bank has given full play to the advantages of various channels to promote electronic banking products, and organized marketing activities by introducing new products and new features, as a result, customers of electronic banking increased rapidly.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Online Banking*

1) Corporate Online Banking

In response to the needs of corporate customers, the Bank continued to enhance its electronic services for corporate capital and actively improved the settlement efficiency and the service quality. As at 30 June 2018, the Bank had a total of 20,929 online banking corporate customers, representing an increase of 13% compared to the end of the previous year; for the first half of 2018 the Bank's accumulated transaction value reached RMB1,065.247 billion, representing an increase of 35% as compared to the same period of the previous year; and the number of transactions reached 515,100, representing an increase of 34% as compared to the same period of the previous year.

2) Personal Online Banking

The Bank continuously improved the user experience for personal online banking and kept promoting the personal online banking business. As at 30 June 2018, the Bank had a total of 412,800 personal online banking customers, representing an increase of 34% compared to the end of the previous year; for the first half of 2018, the number of transactions reached 582,500, representing an increase of 67% compared to the same period of the previous year; and the accumulated transaction value reached RMB18.491 billion, representing an increase of 45% compared to the same period of the previous year.

2. *Mobile Banking*

Focusing on developing mobile financial services, the Bank strived to turn the mobile banking into a platform for mobile Internet operation, customer experience and product promotion, which continued to improve the service, function and experience of mobile banking. As at 30 June 2018, the Bank had a total of 800,500 mobile banking customers, with 1,424,700 transactions and an accumulated transaction value of RMB9.645 billion in the first half of 2018.

3.4 RISK MANAGEMENT

Major risks to which the Bank is exposed include credit risk, operational risk, market risk and liquidity risk. In the first half of 2018, as affected by multiple factors such as continuous promotion of structural optimisation in domestic policies, stricter regulatory control on financial system, and increasingly frequent international trade conflict, the external situation faced by the Bank remained complex and variable. In this regard, under the new leadership of management, the Bank always adhered to a prudent and sound risk control strategy, placed risk prevention at the forefront, took “risk prevention, restructuring and quality maintenance” as priority, actively optimised concept of risk management, and further improved comprehensive risk management system. As a result, the quality and effectiveness of risk management significantly improved and sound operations of various businesses were achieved.

3.4.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The credit risk exposure of the Bank mainly exists in the credit business and treasury business.

In the first half of 2018, under enormous pressure brought by strong regulatory situation and frequent outbreak of default incidents, the Bank implemented the operation philosophy of “taking compliance as the key foundation of the Bank” (合規立行), strictly guarded against the bottom line of risk and continued to uphold prudent and sound risk management strategies, placed close attention to the effective balance and coordinated development of risk, capital and revenue in order to realise sound operation of credit business. Firstly, within the framework of comprehensive risk management, the Bank further improved and strengthened the construction of credit approval mechanism. By adhering to the orientation of regulatory policies and credit business operation, and clinging to refined management, the Bank consolidated system foundation, standardising process construction and comprehensively enhanced the efficiency of approval, which progressively improved credit management system. Secondly, the Bank strictly controlled the allocation of new credit investment, focused on customer positioning with “mainstream customers in mainstream markets, quality customers in quality sectors” (主流市場的主流客戶，優質行業的優質客戶) features, returned to and dug deep into local market, and strictly controlled credit business from different places, effectively guiding resources towards industries and customers which have undergone risk filtering, as a result, the business structure was further optimized. Thirdly, the head office and branches took joint action to carry out inventory investigation, prudently identified risk profiles and customised solutions for customers in order to further strengthen the quality of its existing assets and continue to improve the level of its credit risk control.

3.4.2 Operational Risk Management

Operational risk refers to the risk of loss that may incur due to inadequate or problematic internal procedures, personnel and information technology systems as well as external events, which mainly include internal and external frauds, business interruption and failure of information technology systems.

In the first half of 2018, the Bank strengthened the operational risk management, continuously improved the rules and regulations on operational risk management, gradually optimised the mechanism for operational risk management, and promoted the establishment of operation risk management system, and persistently improved the level of the refined management of operational risks. The Bank conducted on a regular basis risk detection and inspections of major areas and key process, monitored key operational risk indicators for giving early warnings and reporting purposes, and prevented the potentially significant operational risks in the key fields, resulting in further improving its capability of operational risk management. Additionally, the Bank kept increasing the awareness of the staff within the Bank towards the liability associated with risks, intensifying its efforts in organising trainings on operational risks for all the staff, and also strengthening its regulated business operation. As a result, the Bank controlled operational risk at a reasonable level and did not experience any operational risk incident during the Reporting Period.

The Bank established “Three Lines of Defense for Risk Management” (風險管理三道防線) on the basis of main prevention and control organisations consisting of each business department, risk management department, Compliance Department and Audit Department. The Bank also set up operational risk reporting mechanism between risk management department and business departments, and between the head office and branches.

The Bank’s measures to manage the operational risk mainly include:

- establishing and improving the operational risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to early risk alert on risky positions and business process; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- establishing a supervision system combining on-site and off-site, regular and special, self and external examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations by using centralized operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skill requirements by the various positions;
- establishing a mechanism for emergency management and business continuity.

3.4.3 Market Risk Management

Market risks refer to the risk of losses that may be suffered by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, stock price and commodity price. Such risks mainly include interest rate risk and currency risk.

The Bank paid special attention to the market risk control. Facing the complicated and changing external environment in the first half of 2018, the Bank forecasted and proactively made a judgment of the macroscopic trends and market changes, and conducted quantitative risk management on its businesses by using an array of risk management tools, such as sensitivity analysis, exposure analysis and duration analysis. With a view to limiting the market risk within a tolerable extent, the Bank also placed a strict limit for monitoring and managing market risk and conducted regular stress tests to comprehensively identify, accurately measure and continuously monitor the market risk in different business lines.

3.4.3.1 Market Risk of Bank Accounts

1. Interest Rate Risk Management

The Bank's interest rate risk of the bank accounts arises primarily from the repricing risk due to the gap of maturity mismatch of assets and liabilities under the bank accounts. The Bank selected indicators such as repricing gap and interest rate risk sensitivity, and conducted risk identification, measurement and monitoring management for interest rate risks of bank accounts through a variety of risk regulatory methods including gap analysis and stress test analysis. The Bank optimised the allocation of term structure of assets and liabilities by reasonably utilising its pricing mechanism for internal fund transfer. The Bank strengthened quota management and monitored the use of interest rate risk limit for bank accounts. During the Reporting Period, the interest rate risk limit indicator for bank accounts continued to remain within the management objectives.

2. Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank's exposure to the exchange rate risk of bank accounts is mainly arisen from proprietary foreign exchange businesses and the mismatch of currencies in deposits and loans.

In the first half of 2018, due to the impact of the international economic and financial situations as well as the significant change in exchange rate market, the US dollar index experienced a strong rise in the mid-to-late period of the second quarter, and the Renminbi exchange rate hit its lowest level during the year. The Bank selected indicators such as total foreign exchange exposure, the ratio of accumulative foreign exchange positions, and adopted analysis methods such as foreign exchange exposure analysis and stress test in order to identify and measure exchange rate risk of bank accounts. Through regular monitoring, the Bank controlled the exchange rate risk to an acceptable level. During the Reporting Period, the exchange rate risk of bank accounts continued to remain within the management objective.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.4.3.2 Market Risk Management of Trading Accounts

The market risk of trading accounts of the Bank arises primarily from the changes in asset values of financial products in the trading accounts due to changes in interest rates and exchange rates.

During the Reporting Period, the Bank revised the “Implementation Rules for Market Risk Management of Shengjing Bank (Revised)” (《盛京銀行市場風險管理實施細則(修訂)》) according to the business development, and continuously strengthened the risk control and prevention for various businesses including local currency business, foreign currency business and derivatives business. The Bank reevaluated the market value of the position in its trading accounts on a daily basis by setting risk limit indicators such as trading exposure limit, stop-loss limit and value-at-risk limit for different products in its trading accounts. The Bank also measured the market risk of Renminbi and foreign currency trading accounts by conducting regular sensitivity analysis, scenario analysis and stress test, and periodically conducted post-event inspections according to the predicted results of market risk stress tests.

3.4.3.3 Interest Rate Risk Analysis

Management of interest rate risk mainly aims at reducing the potential adverse impacts on the net interest income and company’s net value caused by the changes in the interest rate.

The interest rate risk of the Bank mainly comes from the repricing risk of the commercial banking business and the risk of treasury position. Repricing risk is also referred to as the risk of maturity mismatching and is the primary and most common form of interest rate risk. It arises from the mismatch between the maturity of on-balance sheet bank’s assets, liabilities and off-balance sheet business (in the case of fixed interest rate) and the maturity of repricing (in the case of floating interest rate). The asymmetry of repricing leads to the changes of a bank’s revenue or a company’s net value caused by the changes in the interest rates. Based on the changes in the market situation, the Bank flexibly adjusted its management measures against interest rate risk of bank accounts to ensure its exposure to interest rate risk is reasonable and controllable.

3.4.4 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

The Bank closely monitored the impact on the Bank's liquidity due to the domestic and international changes in economic and financial situations, fiscal policies, monetary policies and financial market. By continuously improving the forward-looking, anticipatory and proactive natures of liquidity management, the Bank ensured that its liquidity level is adequate and stable. Firstly, the Bank attached great importance to liquidity risk management, continuously improved the governance system of liquidity risk, and enhanced awareness and capability on risk prevention. Secondly, the Bank strengthened the analysis and research on the tendencies of economic and financial policies as well as the way of change in market capital in order to adjust the liquidity management strategies in a forward-looking manner, to carry out liquidity arrangement in advance and to enhance the ability to cope with market capital fluctuations. Thirdly, the Bank strengthened the management of assets and liabilities portfolio and optimised the total amount and structure of assets and liabilities. The Bank broadened the source of funding, strengthened its diversification and stability, improved reserve system of current assets and enhanced asset liquidity and the ability to monetise assets. Fourthly, the Bank strengthened the monitoring and early warning management of liquidity indicators, enriched monitoring methods of liquidity, strictly implemented the required management in liquidity risk limits and enhanced the levels in liquidity risk monitoring, identification, measurement and prevention. Fifthly, the Bank strengthened the construction of liquidity emergency response mechanism, improved liquidity risk contingency plan, enhanced the ability and efficiency of emergency response, and continuously increased the level of liquidity risk management.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.4.4.1 Liquidity Risk Analysis

Facing the constant changes in the macroeconomic environment, currency policy and regulatory policy, the Bank adhered to its prudent and sound strategies for liquidity risk management to strengthen the balance of assets and liabilities as well as structural management. The Bank emphasized on being initiative and preventive in liquidity management. By strengthening the works of monitoring and early warning of liquidity indicators as well as term structure of assets and liabilities, the Bank carried out liquidity arrangement in advance and effectively managed liquidity risks. The Bank optimized assets and liabilities portfolio management and reasonably allocated the term structure of assets and liabilities to ensure the Bank would have sufficient liquidity. During the Reporting Period, the Bank's liquidity level was sufficient and stable and there was no liquidity risk.

3.4.5 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

In the first half of 2018, the Bank further improved information technology risk management, strengthened daily inspection of information technology risk, conducted risk assessment on a regular basis and completed risk rectification work in a timely manner. Firstly, the Bank combined the requirements on domestic and international industry standards, social informational risk, safety incident disclosure and informational technology management in order to strengthen a variety of risk inspections, including data risk, informational asset risk, external personnel risk, outsourcing risk, operational risk and maintenance risk. The Bank carried out 18 inspections on a variety of special projects, including safety on information system structure, application system process risk, infrastructure operational risk and outsourcing management risk in order to enhance the prevention of information technology risk. The second was the optimization of security strategies and improvement of maintenance capability. The Bank optimised the disposal strategy for safety protection devices, established asset information for production system, enhanced the identification and analysis ability on abnormal behavior, improved the recognition rate of safety incidents and system availability, effectively prevented malicious access and ensured stable

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

operation of application system. Thirdly, the Bank carried out switching rehearsals in important information system disaster recovery center to ensure business continuity. 17 rehearsals were completed and there were 148 people participated in such rehearsals. The fourth was the strengthening on project management and improvement on project research and development quality. The Bank continuously standardised management on system release and prevented operation and maintenance risks. A joint assessment panel comprising personnel of quality management, test management, research and development was established for projects which were ready to put on line, and online assessments were carried out. The fifth was the continuous monitoring of online trading system and maintenance of the Bank's reputation. The Bank engaged a professional company to carry out testing for the Bank's online trading system and shut down phishing sites through the National Computer Network Emergency Response Technical Team (CNCERT) to ensure safe and stable operation of the Bank's online trading system.

3.4.6 Reputational Risk Management

Reputational risk refers to the risk that may cause negative comments on the Bank made by relevant interested parties due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

In the first half of 2018, the Bank continuously carried out reputational risk management. Firstly, the Bank continued to refine its construction of reputational risk management system, further clarified the organisational structure and division of responsibilities of reputational risk management, improved the transmission mechanism of responsibilities and the emergency and disposal mechanism, and ensured public opinions were handled in a timely and proper manner. Secondly, the Bank fully strengthened its effort in monitoring and analysing public opinion, continued to refine the working platform of monitoring public opinion and a daily report system under which any incident and even zero incident should be reported in order to ensure timely and accurate monitoring on public opinion. Thirdly, the Bank actively carried out self-examination and evaluation of reputational risks, practically enhanced the awareness on reputational risks and continuously strengthened the abilities on early identification, judgment and warning of reputational risks, and

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

conducted reputational risk management training on a regular basis, as well as carried out preparatory work on urgent handling of public opinions. Fourthly, the Bank actively carried out promotion of corporate brand image and business products, and established a good image as a listed company by making full use of media publicity to showcase the highlights of the Bank's works.

3.4.7 Compliance Risk Management

Compliance risk refers to the risk of suffering from legal sanction, regulatory punishment, significant financial loss or reputation loss due to failure to comply with relevant laws, rules and codes of conduct.

The Bank established a sound compliance risk management framework, improved its compliance risk management system, and strictly implemented its compliance management policy. Meanwhile, it formulated and implemented a compliance management plan focusing on risk control, and carried out the construction of a whole-process compliance management mechanism, thereby effectively improving the quality and effectiveness of its compliance management. It also cultivated and built up the concept that the senior management should take initiative to and every employee should be responsible for actively fulfilling compliance duties and that compliance creates value, and promoted a code of conduct and concept of value of honesty and integrity across the Bank, reinforcing the compliance awareness of all employees. In addition, the Bank performed the compliance management functions including compliance review, check, monitoring, warning and policy maintenance, and accurately captured the trend in regulatory policy changes, enabling it to realise the effective identification, measurement, assessment, management and reporting of its compliance risk exposure.

The Bank's management of compliance risk aims at establishing a sound compliance risk management mechanism to effectively identify and manage compliance risk, with a view to ensuring the Bank's legal operation and steady development and improving its core competitiveness so that the Bank can deliver the best services to its customers, maximise the returns for its shareholders, and provide the best development opportunities for its employees.

3.4.8 Anti-Money Laundering Management

The Bank strictly complied with anti-money laundering laws and regulations, and actively implemented anti-money laundering work in accordance with regulatory requirements. Firstly, the Bank further improved its anti-money laundering mechanism based on the actual situation of business development and adjustment of departmental functions. Secondly, in line with its own business characteristics, the Bank optimized suspicious transaction model, strengthened the manual screening and analysis of suspicious transactions, and enhanced the value of reporting key suspicious transactions, and cooperated with the People's Bank of China and public security departments in order to carry out anti-money laundering investigations. Thirdly, in accordance with the requirements of Circular of the PBOC concerning Relevant Issues on Strengthening the Customer Identification for Anti-Money Laundering (Yin Fa [2017] No.235) (《中國人民銀行關於加強反洗錢客戶身份識別有關工作的通知》(銀發〔2017〕235號)), the Bank strengthened the identification of beneficial owners of non-natural person customers, thereby effectively prevented the risks of money laundering and terrorism financing. Fourthly, according to the requirements of Circular of the PBOC on Issuing the Data Interface Specifications for the On-site Anti-Money Laundering Inspections of Banking Financial Institutions (for Trial Implementation) (Yin Fa [2017] No.300), (《中國人民銀行關於下發銀行業金融機構反洗錢現場檢查數據接口規範(試行)的通知》(銀發〔2017〕300號)), the Bank constructed and developed an anti-money laundering on-site inspection data management platform system to effectively improve the efficiency of anti-money laundering on-site inspection, while at the same time optimise the business functions of anti-money laundering system and core system in order to constantly improve technical means and enhance the efficiency of anti-money laundering. Fifthly, the Bank carried out various forms of anti-money laundering training to enhance the Bank's management level and risk prevention awareness on anti-money laundering. Sixthly, the Bank organized and carried out anti-money laundering special inspection on its subordinated institutions, enhanced employees' awareness on anti-money laundering risks prevention and compliance, and consolidated the basic management of anti-money laundering.

3.5 FUTURE PROSPECTS

At present, the international economy and finance are intricate and complex, and there is divergence in the recovery process of major economies. The economic operation in China performs steadily in general, with the economic structure continuing to be optimised. In the second half of the year, China will continue to deepen the supply-side structural reform and implement high-quality development, put emphasis on prevention of significant risk, specific measures to reduce poverty and pollution control, and adhere to the implementation of proactive fiscal policies and prudent monetary policies in order to promote a steady and healthy economic development.

The Bank will actively comply with the policy ideas of China's economic development, and focus on the development goal of "building itself into an integrated, diversified and high-quality joint-stock commercial bank with a leading position among peers" (建設綜合性、多元化、高品質，在同類型銀行中處於領先地位的股份制商業銀行) in order to fully enhance core competitiveness. Firstly, the Bank will optimise its asset and liability structure, promote innovative development of "light capital, light asset" businesses, further consolidate its funding base and steadily increase the profitability of the Bank. Secondly, by accelerating the adjustment of business structure, developing a professional financial service system for public and retail sectors, the Bank will create a "treasury management system" (財資管理體系) covering cash management, supply chain finance, transaction banking and investment banking businesses, as well as a "wealth management system" (財富管理體系) covering payment and settlement, consumer finance, banking, credit card businesses, all of which will strengthen its financial service capabilities. Thirdly, the Bank will adhere to the risk management concept of compliance with law, prudential operation and steady development. By improving the comprehensive risk management system and enriching the methods and tools of risk management, its level of risk management will be enhanced. Fourthly, the Bank will deepen system and mechanism reforms and continue to promote the optimisation and adjustment of organisational structure, construct management layouts with two-level management comprising head office and branches, and three-level marketing comprising headquarters, branches and sub-branches, stimulating intrinsic development momentum. Fifthly, through strengthening the construction of talent pool and establishing a professional team, effective use of human resources will be achieved. Sixthly, the Bank will reinforce support of financial technology, expand investment in information technology, promote the development and construction of technology projects, and comprehensively improve the information technology level. Seventhly, through the strengthening of corporate image and promotion of business products, the Bank will improve the services in its outlets and build a brand image as an outstanding enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

By means of the implementation of a series of strategic initiatives, the Bank will take advantages and capture opportunities under the new momentum of banking development. The Bank will adopt a business strategy of “strengthening its internal business management and establishing its external market image” (內強經營管理·外樹市場形象) and focus on enhancing capability to optimise business model, so as to strengthen its market competitiveness and establish sustainable business development capacities. With in-depth innovation and transformation, the Bank will achieve re-establishment and upgrade of operational management, thus creating a new pattern of healthy, favorable and sustainable development.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

	31 December 2017		Changes during the Reporting Period			30 June 2018	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic							
Shares legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
Total	5,796,680,200	100.00	nil	nil	nil	5,796,680,200	100.00

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.1 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF DOMESTIC SHARES OF THE BANK

As at 30 June 2018, the top ten Shareholders of the Domestic Shares of the Bank are as follows:

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nanchang) Co., Ltd. (恒大集團(南昌)有限公司)	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司) ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. (遼寧匯寶國際投資集團有限公司) ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. (新湖中寶股份有限公司) ("Xinhu Zhongbao")	Private	300,000,000	5.18	0
5	Founder Securities Co., Ltd. (方正證券股份有限公司) ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. (瀋陽中油天寶(集團)物資裝備有限公司) ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	59,760,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	2.04	0
Total			3,309,675,427	57.10	59,760,000

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.2 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2018, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Satinu Resources Group Ltd. ⁽¹⁾	Interest of a controlled corporation	203,676,000 (Long position)	13.22	3.51
Luck Extreme Limited ⁽²⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Lau Luen Hung ⁽²⁾	Interest of a child under 18 or spouse	197,180,500 (Long position)	12.80	3.40
Chan Hoi Wan ⁽²⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Enerchina Holdings Limited ⁽³⁾	Interest of a controlled corporation	190,435,000 (Long position)	12.36	3.29
Cheung Chung Kiu ⁽⁴⁾	Interest of a controlled corporation	189,651,500 (Long position)	12.31	3.27
Cheng Yu Tung Family (Holdings II)Limited ⁽⁵⁾	Interest of a controlled corporation ⁽²⁾	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings) Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook (Holding) Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Nominee Limited ⁽⁵⁾	Beneficial owner ⁽⁶⁾ Interest of a controlled corporation ⁽⁶⁾	179,518,060 (Long position)	11.65	3.10

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Shanghai International Trust Co., Ltd. (上海國際信託有限公司)	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Shun Yi International Trading Co., Ltd. (順意國際貿易有限公司)	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co. Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

Notes:

- (1) Murtsa Capital Management Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Management Limited was wholly owned by Satinu Investment Group Ltd.; Satinu Investment Group Ltd. was wholly owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Investment Group Ltd. and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Murtsa Capital Management Limited.
- (2) Great Captain Limited held 197,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by Perfect Sign Investments Limited; Perfect Sign Investments Limited was wholly owned by Luck Extreme Limited; Luck Extreme Limited was wholly owned by Chan Hoi Wan. By virtue of the SFO, Perfect Sign Investments Limited, Luck Extreme Limited, Chan Hoi Wan and Lau Luen Hung are deemed to be interested in the Shares held by Great Captain Limited.
- (3) Smart Jump Corporation held 435,000 H Shares of the Bank. Smart Jump Corporation was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Smart Jump Corporation.

Nu Kenson Limited held 190,000,000 H Shares of the Bank. Nu Kenson Limited was wholly owned by Win Wind Intermediary Financial Services Limited; Win Wind Intermediary Financial Services Limited was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Intermediary Financial Services Limited, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Nu Kenson Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (4) Bookman Properties Limited held 10,000,000 H Shares of the Bank. Bookman Properties Limited was wholly owned by Ferrex Holdings Limited; Ferrex Holdings Limited was wholly owned by Yugang International (B.V.I.) Limited; Yugang International (B.V.I.) Limited was wholly owned by Yugang International Limited; Yugang International Limited was held as to 34.33% by Chongqing Industrial Limited; Chongqing Industrial Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Ferrex Holdings Limited, Yugang International (B.V.I.) Limited, Yugang International Limited, Chongqing Industrial Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Bookman Properties Limited.

Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly owned by Mighty Gain Enterprises Limited; Mighty Gain Enterprises Limited was wholly owned by C C Land Holdings Limited; C C Land Holdings Limited was held as to 41.37% by Thrivetrade Limited; Thrivetrade Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Thrivetrade Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.

Bondic International Holdings Limited held 154,651,500 H Shares of the Bank. Bondic International Holdings Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Cheung Chung Kiu is deemed to be interested in the Shares held by Bondic International Holdings Limited.

- (5) Acemax Enterprises Limited held 50,776,620 H Shares of the Bank. Acemax Enterprises Limited was wholly owned by Chow Tai Fook Nominee Limited.

Oceanic Fortress Limited held 76,164,940 H Shares of the Bank. Oceanic Fortress Limited was wholly owned by Chow Tai Fook Nominee Limited.

Chow Tai Fook Nominee Limited held 179,518,060 H Shares of the Bank. Chow Tai Fook Nominee Limited was held as to 99.80% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited.

- (6) 179,518,060 H Shares were held in the capacity of beneficial owner, and 126,941,560 H Shares were held in the capacity of a controlled corporation.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 30 June 2018, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage	
			of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
Evergrande ⁽¹⁾	Interest of a controlled corporation	1,001,680,000 (Long position)	23.54	17.28
Shenyang Hengxin	Beneficial owner	479,836,334 ⁽²⁾ (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. ⁽³⁾	Interest of a controlled corporation	479,836,334 ⁽²⁾ (Long position)	11.27	8.28
Huibao International	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Beijing Jiutai Group Co., Ltd. ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Li Ping ⁽⁵⁾	Interest of a child under 18 or spouse	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Peking University Founder Group Co., Ltd. ⁽⁶⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Peking University Asset Management Company Limited ⁽⁶⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes:

- (1) China Evergrande Group (“Evergrande”) (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,001,680,000 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Group (Nanchang) Co., Ltd. (恒大集團(南昌)有限公司).
- (2) According to the register of shareholders of the Bank as at 30 June 2018, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) Huibao International was wholly-owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which was in turn owned as to 100% by Li Yuguo (李玉國). By virtue of the SFO, Beijing Jiutai Group Co., Ltd. and Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Based on the information provided by Xihu Zhongbao, Xihu Zhongbao was owned as to 32.41%, 16.86%, 5.38% and 2.44% by Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉), Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司) and Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司), respectively; Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司) owned 99% of Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司), and Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司) wholly owned Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司); Huang Wei (黃偉) owned 67.22% of Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司). By virtue of the SFO, each of Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉) and Li Ping (李萍) are deemed to be interested in the Shares held by Xihu Zhongbao.
- (6) Based on the information provided by Founder Securities, Founder Securities was owned as to 29.29% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which was in turn owned as to 70% by Peking University Asset Management Company Limited (北大資產經營有限公司).

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 30 June 2018 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.3 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Group (Nanchang) Co., Ltd., Shenyang Hengxin, Huibao International, Xinhua Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively.

4.4 ISSUANCE OF DEBT SECURITIES

1. Debt Securities Issued

In 2014, the Bank issued ten-year Tier-two Capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. Such Tier-two Capital bonds will be due on 30 May 2024.

In December 2015, the Bank issued ten-year Tier-two Capital bonds, with an aggregate principal amount of RMB10 billion and an annual interest rate of 4.57%. Such Tier-two Capital bonds will be due on 8 December 2025. The proceeds from the issuance of the bonds will be used to replenish the Bank's Tier-two Capital and enhance capital adequacy ratio.

On 26 August 2016, the Bank issued financial bonds in the aggregate principal amount of RMB7 billion to members of the inter-bank bond market in China. The bonds comprise two types, which are three-year fixed rate bonds with an interest rate of 3.0% per annum and five-year fixed rate bonds with an interest rate of 3.1% per annum. The proceeds from the issuance of the bonds will be used for loans to small and micro enterprises in accordance with the applicable laws and the approvals from regulatory authorities as well as the relevant national industrial policies.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

On 18 December 2017, the Bank has issued Tier-two capital bonds in the aggregate principal amount of RMB6 billion on the inter-bank bond market in China. The bonds are ten-year fixed-rate bonds, with annual coupon rate of 4.90%, and have a conditional issuer's redemption right at the end of the fifth year. The proceeds from the issuance of the bonds will be used to replenish the Bank's Tier-two capital in accordance with the applicable laws and the approvals from regulatory authorities.

On 15 August 2018, the Bank has issued its 2018 financial bonds I in the aggregate principal amount of RMB12.0 billion on the inter-bank bond market in China. The bonds are three-year fixed-rate bonds, with annual coupon rate of 4.35%. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium-and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 that, subject to necessary governmental and regulatory authorities, the Bank will issue financial bonds in the aggregate principal amount of up to RMB30 billion to members of the interbank bond market in China. The bonds will have a term of maturity of less than five years (inclusive) with the interest rate to be determined by bookbuilding-based centralised allocation or open tendering. The proceeds from the issuance of the bonds will be used to optimise the matching structure of the Bank's medium-and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

The Board has resolved, and the Shareholders have approved at the 2018 second extraordinary general meeting of the Bank held on 17 August 2018 that, subject to necessary governmental and regulatory authorities, the Bank will issue capital bonds with no fixed term in the aggregate principal amount of up to RMB9 billion to members of the interbank bond market in China. The bonds will have no fixed term, with the date of triggering event being the date of maturity; and the interest rate of the bonds will be determined with reference to the market interest rate. The investors will not be entitled to repurchase the bonds, and the Bank is entitled to redeem all or part of the bonds from the fifth year following the date of issuance. The proceeds from the issuance of the bonds, after deducting issuance expenses, will be used to replenish other Tier-one Capital.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

4.5 PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, redeemed or sold any of the Bank's listed securities.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

5.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of disclosure of this report, the Directors, Supervisors and senior management of the Bank comprised:

Name	Age	Position
Mr. ZHANG Qiyang (張啟陽)	53	Executive Director, Chairperson of the Board
Mr. ZHANG Qiang (張強)	55	Executive Director, President
Mr. WANG Yigong (王亦工)	52	Executive Director, Vice President and Chief Risk Officer
Mr. WU Gang (吳剛)	48	Executive Director, Vice President
Mr. QIU Huofa (邱火發)	58	Non-executive Director, Vice Chairman of the Board
Mr. LIU Yanxue (劉彥學)	53	Non-executive Director
Mr. LI Jianwei (李建偉)	58	Non-executive Director
Mr. LI Yuguo (李玉國)	64	Non-executive Director
Mr. YUEN Wing Shing (袁永誠)	71	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	59	Non-executive Director
Mr. NI Guoju (倪國巨)	64	Independent Non-executive Director
Mr. KEUNG Chak (姜策)	58	Independent Non-executive Director
Mr. TAI Kwok Leung, Alexander (戴國良)	60	Independent Non-executive Director
Mr. XING Tiancai (邢天才)	57	Independent Non-executive Director
Mr. LI Jinyi (李進一)	54	Independent Non-executive Director
Mr. YANG Liya (楊利亞)	55	Employee Supervisor, Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	53	Employee Supervisor
Mr. WANG Lijun (王立軍)	37	Employee Supervisor
Mr. PAN Wenge (潘文戈)	51	Shareholder Supervisor
Mr. LIU Huidi (劉惠弟)	57	Shareholder Supervisor
Mr. YU Haobo (于浩波)	53	Shareholder Supervisor
Mr. BA Junyu (巴俊宇)	63	External Supervisor
Mr. SUN Hang (孫航)	52	External Supervisor
Mr. DAI Qiang (戴強)	52	External Supervisor
Mr. SUN Yonghseng (孫永生)	57	Vice President
Mr. ZHOU Zhi (周峙)	49	Secretary of the Board
Mr. ZHANG Yi (張翼)	47	Chief Information Officer
Mr. LIU Zhiyan (劉志岩)	58	Chief Financial Officer

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

As at 30 June 2018, the interests or short positions of the Directors, the Supervisors and the chief executives and their respective associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held (share)	Representing percentage with respect to Domestic Shares of the Bank (%)	Representing percentage with respect to the total share capital of the Bank (%)
LI Yuguo (李玉國)	Non-executive Director	Interest of a controlled corporation	400,000,000 ⁽¹⁾	9.3986	6.9005
YANG Lin ⁽²⁾ (楊林)	Former Employee Supervisor, Former Chairman of the Board of Supervisors	Beneficial owner	36,274	0.0009	0.0006
HAN Xuefeng ⁽²⁾ (韓學豐)	Former Employee Supervisor, Former Vice Chairman of the Board of Supervisors	Beneficial owner	15,681	0.0004	0.0003
SHI Yang (石陽)	Employee Supervisor	Beneficial owner	107,684	0.0025	0.0019
WU Gang (吳剛)	Executive Director, Vice President	Beneficial owner	146,149	0.0034	0.0025

Notes:

- (1) Please refer to "Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons" in this report for details.
- (2) Mr. YANG Lin and Mr. HAN Xuefeng have ceased to act as Employee Supervisors since 15 August 2018.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Save as disclosed above, none of the Directors, the Supervisors, or the chief executives and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 30 June 2018 which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

5.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.2.1 Changes in Directors

The term of office of the fifth session of the Board has expired. Mr. WANG Chunsheng and Mr. SUN Yongsheng did not offer themselves for re-election as executive Directors; Mr. LIU Xinfa did not offer himself for re-election as non-executive Director; and Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming did not offer themselves for re-election as independent non-executive Directors.

At the 2018 first extraordinary general meeting of the Bank held on 28 February 2018, Shareholders have approved the composition of the sixth session of the Board. Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. WANG Yigong and Mr. WU Gang have been elected as the executive Directors; Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing have been elected as the non-executive Directors; and Mr. NI Guoju, Mr. KEUNG Chak, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi have been elected as the independent non-executive Directors. The Board has further resolved that Mr. ZHANG Qiyang and Mr. QIU Huofa have been elected as the chairman and vice chairman of the Board, respectively.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

The committees of the sixth session of the Board have also been elected. The Strategic Development Committee will consist of five Directors, including Mr. ZHANG Qiyang as the chairman, Mr. QIU Huofa as the vice chairman, and Mr. ZHANG Qiang, Mr. ZHAO Weiqing and Mr. XING Tiancai as members. The Nomination and Remuneration Committee will consist of five Directors, including Mr. XING Tiancai as the chairman, Mr. ZHANG Qiyang as the vice chairman, and Mr. QIU Huofa, Mr. KEUNG Chak and Mr. LI Jinyi as members. The Risk Control and Consumers' Rights Protection Committee will consist of five Directors, including Mr. LI Jinyi as the chairman, Mr. ZHANG Qiang as the vice chairman, and Mr. WU Gang, Mr. LI Yuguo and Mr. NI Guoju as members. The Related Party Transactions Control Committee will consist of five Directors, including Mr. NI Guoju as the chairman, Mr. WANG Yigong as the vice chairman, and Mr. YUEN Wing Shing, Mr. TAI Kwok Leung, Alexander and Mr. XING Tiancai as members. The Audit Committee will consist of five Directors, including Mr. TAI Kwok Leung, Alexander as the chairman, Mr. LIU Yanxue as the vice chairman, and Mr. LI Jianwei, Mr. KEUNG Chak and Mr. LI Jinyi as members.

The CBIRC Liaoning Bureau has ratified the eligibility of Mr. LIU Yanxue, Mr. NI Guoju, Mr. LI Jinyi and Mr. XING Tiancai to serve as directors of the Bank, and their term of office commenced from 24 April 2018. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. QIU Huofa to serve as the vice chairman of the Board the Bank, and his term of office commenced from 3 May 2018. The CBIRC Liaoning Bureau his ratified the eligibility of Mr. ZHANG Qiang to serve as a director of the Bank, and his term of office commenced from 14 May 2018; The CBIRC Liaoning Bureau has ratified the eligibility of Mr. YUEN Wing Shing, Mr. KEUNG Chak and Mr. TAI Kwok Leung, Alexander to serve as directors of the Bank, and their term of office commenced from 7 August 2018.

5.2.2 Changes in Supervisors

The term of office of the fifth session of the Board of Supervisors has expired. Mr. CHEN Zhaogui and Ms. SUN Yi did not offer themselves for re-election as Shareholder Supervisors; Mr. HUANG Liangkuai, Mr. ZHOU Zheren and Mr. WEN Zhaoye did not offer themselves for re-election as External Supervisors; and Mr. YANG Lin and Mr. HAN Xuefeng have ceased to act as Employee Supervisors.

Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 the Shareholder Supervisors and the External Supervisors of the sixth session of the Board of Supervisors, with Mr. PAN Wenge, Mr. LIU Huidi and Mr. YU Haobo as the Shareholder Supervisors, and Mr. BA Junyu, Mr. SUN Hang and Mr. DAI Qiang as the External Supervisors.

On 15 August 2018, the employee representatives' meeting of the Bank elected Mr. YANG Liya, Mr. SHI Yang and Mr. WANG Lijun as Employee Supervisors for the sixth session of the Board of Supervisors.

On 23 August 2018, the Board of Supervisors convened a meeting and elected Mr. Yang Liya as the chairman for the sixth session of the Board of Supervisors.

The committees of the sixth session of the Board of Supervisors have also been elected. The supervision committee will consist of five Supervisors, including Mr. BA Junyu as the chairman, Mr. DAI Qiang as the vice chairman, and Mr. YANG Liya, Mr. SHI Yang and Mr. PAN Wenge as members. The nomination committee will consist of five Supervisors, including Mr. SUN Hang as the chairman, Mr. YANG Liya as the vice chairman, and Mr. WANG Lijun, Mr. LIU Huidi and Mr. YU Haobo as members.

5.2.3 Changes in Senior Management

The Board has resolved that Mr. ZHANG Qiang has been elected as the president of the Bank. the CBIRC Liaoning Bureau has ratified the eligibility of Mr. ZHANG Qiang to serve as the president of the Bank, and his term of office commenced from 26 April 2018.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

5.3 SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not less exacting than the required standard in the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

5.4 EMPLOYEES, EMPLOYEES’ COMPENSATION POLICIES AND TRAINING SCHEMES

As at 30 June 2018, the Bank had 5,251 employees in total.

The Bank has established a performance-based compensation system whereby an employee’s compensation is determined based on position and performance review. The Bank contributes to its employees’ social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

According to its overall development strategies and training plans, the Bank has implemented a diversified training programme, effectively enhancing the overall competence of and supporting the professional growth of its employees of all levels and positions. During the Reporting Period, the Bank integrated the training resources of its head office, branches and sub-branches and diversified its training methods. It organised research sessions on financial environment and business innovation for middle to senior level management by offering off-job studies and inviting external experts for lectures. These programmes not only focus on primary and innovative businesses as well as specialised business lines but also integrate on-the-job trainings and communications, so as to carry out employee trainings in accordance with business lines and allocated batches. In addition, the Bank strengthened the construction of its internal lecturers. During the Reporting Period, the Bank conducted employee training sessions with total enrolments of 17,646.

6.1 CORPORATE GOVERNANCE CODE

The Bank strives to improve the transparency and accountability of corporate governance and ensure high standards of corporate governance to safeguard shareholders' interests and enhance its enterprise value and commitment.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of insider information. The Bank issued 2017 Environmental, Social and Governance Report under the Listing Rules.

6.2 EARNINGS AND DIVIDENDS

The Bank's revenue for the six months ended 30 June 2018 and the Bank's financial position as at the same date are set out in the section headed "Interim Financial Statements".

A final dividend of RMB1.8 for every ten Shares (tax inclusive) for the year 2017, or in an aggregate amount of RMB1,043.40 million (tax inclusive), has been distributed by the Bank upon consideration and approval at the Bank's 2017 annual general meeting held on 31 May 2018. The final dividend for the year 2017 was distributed to holders of Domestic Shares and H Shares on 2 August 2018.

The Bank will not distribute any interim dividend for the first six months of 2018 or convert any capital reserve into share capital.

6.3 RELATED PARTY TRANSACTIONS

No material related party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

6.4 MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

SIGNIFICANT EVENTS (CONTINUED)

6.5 PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Bank, the Directors, the Supervisors or the senior management of the Bank was subject to any investigation, administrative penalty or public criticism by the CSRC or the CBIRC, or any public censure by any securities exchange, or any punishment by any other regulatory authorities which would have a material impact on the Bank's operations.

6.6 REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN

Reference is made to pages 164 to 165 of the prospectus of the Bank dated 15 December 2014 (the "Prospectus") in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as "Other Receivables" as the loan is interest-free) (the "Relevant Receivables") owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) ("Shenyang City Construction") in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering.

SIGNIFICANT EVENTS (CONTINUED)

As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the "Lock-up Period"). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank's written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

Reference is further made to (i) the announcement of the Bank dated 31 March 2017 in relation to the withdrawal of its A-share listing application; and (ii) the announcement of the Bank dated 13 April 2017 in relation to the repayment of the Relevant Receivables by Shenyang Hengxin. The Bank and Shenyang Hengxin have been proactively pushing forward the relevant work related to the repayment of the Relevant Receivables, including but not limited to, going through the relevant approval procedures in accordance with the applicable PRC laws and regulations, with a view to implement the repayment of the Relevant Receivables.

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables due and payable was approximately RMB654 million, and the balance of the impairment provision was RMB273 million.

6.7 AMENDMENT TO ARTICLES OF ASSOCIATION

Reference is made to (i) the announcement of the Bank dated 28 February 2018 in relation to, among other things, the resolution on the approval of the amendment to the Articles of Association by Shareholders at the 2018 first extraordinary general meeting of the Bank; and (ii) the announcement of the Bank dated 8 April 2018. The amended Articles of Association was approved by the CBIRC Liaoning Bureau on 23 March 2018 and has become effective on the same date.

SIGNIFICANT EVENTS (CONTINUED)

6.8 CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Reference is made to the announcement of the Bank dated 25 May 2018. The principal place of business of the Bank in Hong Kong has been changed to Unit 3209, 32/F, Office Tower Convention Plaza, No.1 Harbour Road, Waichai, Hong Kong, with effect from 25 May 2018.

6.9 REVIEW OF THE INTERIM REPORT

Financial statements disclosed herein have not been audited. The interim financial statements for the six months ended 30 June 2018 prepared by the Bank in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410.

The Board and the Audit Committee of the Board have reviewed and approved the interim report of the Bank.

6.10 PUBLICATION OF INTERIM REPORT

This report is prepared in both English and Chinese versions. In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

REVIEW REPORT OF THE INDEPENDENT AUDITORS

Review report to the board of directors of Shengjing Bank Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 95 to 230 which comprises the consolidated statement of financial position of Shengjing Bank Co., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

REVIEW REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 August 2018

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018
(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

		Six months ended 30 June	
	Note	2018	2017
			Note
Interest income		21,078,133	18,443,387
Interest expense		<u>(15,967,611)</u>	<u>(12,973,887)</u>
Net interest income	5	<u>5,110,522</u>	<u>5,469,500</u>
Fee and commission income		449,743	1,178,619
Fee and commission expense		<u>(76,317)</u>	<u>(111,113)</u>
Net fee and commission income	6	<u>373,426</u>	<u>1,067,506</u>
Net trading gains/(losses)	7	1,064,286	(685,600)
Net gains arising from investments	8	1,181,407	41,487
Net foreign exchange (losses)/gains		(1,719,387)	568,972
Other operating income	9	<u>18,758</u>	<u>7,574</u>
Operating income		6,029,012	6,469,439
Operating expenses	10	(1,816,109)	(1,645,935)
Impairment losses on assets	11	<u>(1,250,657)</u>	<u>(603,837)</u>
Profit before taxation		2,962,246	4,219,667
Income tax expense	12	<u>(124,187)</u>	<u>(715,471)</u>
Profit for the period		<u>2,838,059</u>	<u>3,504,196</u>
Net profit attributable to:			
Equity shareholders of the Bank		2,840,709	3,506,738
Non-controlling interests		<u>(2,650)</u>	<u>(2,542)</u>
		<u>2,838,059</u>	<u>3,504,196</u>
Net profit		<u>2,838,059</u>	<u>3,504,196</u>

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2018

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	Six months ended 30 June	
		2018	2017
			Note
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(1,674)	(5)
Items that may be reclassified subsequently to profit or loss			
– Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve		530,782	–
– net movement in the provision reserve		3,121	–
– Available-for-sale financial assets:			
net movement in the fair value reserve (recycling)		–	(2,267)
		<u>532,229</u>	<u>(2,272)</u>
Other comprehensive income net of tax		<u>532,229</u>	<u>(2,272)</u>
Total comprehensive income		<u>3,370,288</u>	<u>3,501,924</u>
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,372,938	3,504,466
Non-controlling interests		<u>(2,650)</u>	<u>(2,542)</u>
		<u>3,370,288</u>	<u>3,501,924</u>
Basic and diluted earnings per share (<i>in RMB</i>)	13	<u>0.49</u>	<u>0.60</u>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018
(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2018	31 December 2017 Note
Assets			
Cash and deposits with Central Bank	14	79,135,200	84,201,957
Deposits with banks and other financial institutions	15	41,669,990	35,414,260
Financial assets held for sale	16	1,505,351	–
Precious metals		274,310	274,310
Placements with banks and other financial institutions	17	4,649,198	34,327,733
Derivative financial assets	18	2,220,778	429,386
Financial assets held under resale agreements	19	4,594,858	20,339,752
Loans and advances to customers	20	324,813,434	271,782,787
Financial investments:			
Financial assets at fair value through other comprehensive income	21(a)	43,488,281	–
Financial assets measured at amortised cost	21(b)	352,485,136	–
Financial assets at fair value through profit or loss	21(c)	86,050,939	–
Available-for-sale financial assets	21(d)	–	103,729,104
Held-to-maturity investments	21(e)	–	224,536,165
Loans and receivables	21(f)	–	238,100,568
Property and equipment	22	5,335,299	5,357,249
Deferred tax assets	23	1,871,439	1,973,802
Other assets	24	9,856,179	10,150,358
Total assets		957,950,392	1,030,617,431
Liabilities			
Borrowings from Central Bank	25	39,430,000	48,160,000
Deposits from banks and other financial institutions	26	40,497,105	153,651,596
Placements from banks and other financial institutions	27	39,766,384	51,323,948
Financial liabilities at fair value through profit or loss		15,698,127	18,553,887
Derivative financial liabilities	18	1,880,900	1,268,879
Financial assets sold under repurchase agreements	28	33,791,697	75,623,265
Deposits from customers	29	504,865,803	473,580,808
Income tax payable		–	218,681
Debt securities issued	30	212,183,017	140,920,240
Other liabilities	31	15,842,014	15,060,471
Total liabilities		903,955,047	978,361,775

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2018	31 December 2017 Note
Equity			
Share capital	32	5,796,680	5,796,680
Capital reserve	33	11,855,505	11,855,505
Surplus reserve	33	6,110,162	5,352,502
General reserve	33	12,571,840	11,034,031
Fair value reserve	33	365,263	(335,375)
Provision reserve	33	10,458	–
Deficit on remeasurement of net defined benefit liability	33	(7,750)	(6,076)
Retained earnings		<u>16,721,652</u>	<u>17,984,108</u>
Total equity attributable to equity shareholders of the Bank		53,423,810	51,681,375
Non-controlling interests		<u>571,535</u>	<u>574,281</u>
Total equity		<u>53,995,345</u>	<u>52,255,656</u>
Total liabilities and equity		<u>957,950,392</u>	<u>1,030,617,431</u>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

Approved and authorised for issue by the board of directors on 23 August 2018.

Zhang Qiyang

Chairman of Board of Directors

Sun Yongsheng

Vice President

Liu Zhiyan

Chief Financial Officer

Company chop

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Expressed in thousands of RMB, unless otherwise stated)

Attributable to equity shareholders of the Bank										
Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626
Profit for the period	-	-	-	-	-	-	3,506,738	3,506,738	(2,542)	3,504,196
Other comprehensive income	-	-	-	-	(2,267)	(5)	-	(2,272)	-	(2,272)
Total comprehensive income	-	-	-	-	(2,267)	(5)	3,506,738	3,504,466	(2,542)	3,501,924
Appropriation of profit:										
- Appropriation to surplus reserve	34	-	-	685,534	-	-	(685,534)	-	-	-
- Appropriation to general reserve (Note (i))	34	-	-	-	1,766,626	-	(1,766,626)	-	-	-
- Cash dividends	34	-	-	-	-	-	(1,449,170)	(1,449,170)	-	(1,449,170)
Subtotal		-	-	685,534	1,766,626	-	(3,901,330)	(1,449,170)	-	(1,449,170)
Balance at 30 June 2017	5,796,680	11,855,505	5,352,502	11,033,726	(94,311)	(5,473)	13,911,096	47,849,725	577,655	48,427,380
Balance at 1 July 2017	5,796,680	11,855,505	5,352,502	11,033,726	(94,311)	(5,473)	13,911,096	47,849,725	577,655	48,427,380
Profit for the period	-	-	-	-	-	-	4,073,317	4,073,317	(3,374)	4,069,943
Other comprehensive income	-	-	-	-	(241,064)	(603)	-	(241,667)	-	(241,667)
Total comprehensive income	-	-	-	-	(241,064)	(603)	4,073,317	3,831,650	(3,374)	3,828,276
Appropriation of profit:										
- Appropriation to surplus reserve	34	-	-	-	-	-	-	-	-	-
- Appropriation to general reserve	34	-	-	-	305	-	(305)	-	-	-
- Cash dividends	34	-	-	-	-	-	-	-	-	-
Subtotal		-	-	-	305	-	(305)	-	-	-
Balance at 31 December 2017	5,796,680	11,855,505	5,352,502	11,034,031	(335,375)	(6,076)	17,984,108	51,681,375	574,281	52,255,656

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB3,273 thousand.

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

(Expressed in thousands of RMB, unless otherwise stated)

Attributable to equity shareholders of the Bank												
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,034,031	(335,375)	-	(6,076)	17,984,108	51,681,375	574,281	52,255,656
Impact on initial application of IFRS 9	3	-	-	-	-	169,856	7,337	-	(764,294)	(587,101)	(96)	(587,197)
Balance at 1 January 2018		5,796,680	11,855,505	5,352,502	11,034,031	(165,519)	7,337	(6,076)	17,219,814	51,094,274	574,185	51,668,459
Profit for the period		-	-	-	-	-	-	-	2,840,709	2,840,709	(2,650)	2,838,059
Other comprehensive income		-	-	-	-	530,782	3,121	(1,674)	-	532,229	-	532,229
Total comprehensive income		-	-	-	-	530,782	3,121	(1,674)	2,840,709	3,372,938	(2,650)	3,370,288
Appropriation of profit:												
- Appropriation to surplus reserve	34	-	-	757,660	-	-	-	-	(757,660)	-	-	-
- Appropriation to general reserve (Note (i))	34	-	-	-	1,537,809	-	-	-	(1,537,809)	-	-	-
- Cash dividends	34	-	-	-	-	-	-	-	(1,043,402)	(1,043,402)	-	(1,043,402)
Subtotal		-	-	757,660	1,537,809	-	-	-	(3,338,871)	(1,043,402)	-	(1,043,402)
Balance at 30 June 2018		5,796,680	11,855,505	6,110,162	12,571,840	365,263	10,458	(7,750)	16,721,652	53,423,810	571,535	53,995,345

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB234 thousand.

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018
(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2018	2017
Cash flows from operating activities			
Profit before taxation		2,962,246	4,219,667
<i>Adjustments for:</i>			
Impairment losses on assets		1,250,657	603,837
Depreciation and amortisation		199,488	181,153
Unwinding of discount		(60,563)	(52,124)
Unrealised foreign exchange losses/(gains)		335,037	(240,247)
Dividend income		(15,730)	(23,111)
Net trading (gains)/losses		(1,192,091)	685,600
Net gains on disposal of financial investments		(1,165,677)	(18,376)
Interest expense on debt securities issued		3,978,801	1,886,856
Interest income on financial investments and financial assets held for sale		<u>(10,268,433)</u>	<u>(9,462,681)</u>
		(3,976,265)	(2,219,426)
<i>Changes in operating assets</i>			
Net increase in deposits with Central Bank		(5,911,624)	(1,958,680)
Net (increase)/decrease in deposits and placements with banks and other financial institutions		(4,904,562)	18,034,450
Net increase in loans and advances to customers		(54,661,970)	(42,360,293)
Net increase in other operating assets		<u>(875,659)</u>	<u>(313,021)</u>
		(66,353,815)	(26,597,544)

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2018
(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2018	2017
<i>Changes in operating liabilities</i>			
Net decrease in borrowings from Central Bank		(8,730,000)	(48,300,000)
Net decrease in deposits and placements from banks and other financial institutions		(124,712,055)	(12,999,735)
Net (decrease)/increase in financial assets sold under repurchase agreements		(41,831,568)	6,928,083
Net increase in deposits from customers		31,284,995	28,211,274
Income tax paid		(575,791)	(1,591,833)
Net (decrease)/increase in other operating liabilities		(1,638,370)	9,449,977
		<u>(146,202,789)</u>	<u>(18,302,234)</u>
Net cash flows used in operating activities		<u>(216,532,869)</u>	<u>(47,119,204)</u>
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		703,398,919	966,211,977
Payments on acquisition of investments		(609,582,761)	(986,831,259)
Payments on acquisition of property and equipment, intangible assets and other assets		(175,074)	(321,758)
		<u>93,641,084</u>	<u>(20,941,040)</u>
Net cash flows generated from/(used in) investing activities		<u>93,641,084</u>	<u>(20,941,040)</u>

The notes on pages 104 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2018
(Expressed in thousands of RMB, unless otherwise stated)*

	<i>Note</i>	Six months ended 30 June	
		2018	2017
Cash flows from financing activities			
Net proceeds from new debt securities issued		379,194,529	141,365,670
Repayment of debt securities issued		(307,931,752)	(94,368,135)
Interest paid on debt securities issued		(3,566,156)	(1,613,867)
Dividends paid		<u>(37,425)</u>	<u>(118,126)</u>
Net cash flows generated from financing activities		<u>67,659,196</u>	<u>45,265,542</u>
Effect of foreign exchange rate changes on cash and cash equivalents			
		<u>196,687</u>	<u>(315,499)</u>
Net decrease in cash and cash equivalents		(55,035,902)	(23,110,201)
Cash and cash equivalents as at 1 January		<u>81,559,847</u>	<u>92,555,618</u>
Cash and cash equivalents as at 30 June	35	<u><u>26,523,945</u></u>	<u><u>69,445,417</u></u>
Net cash flows generated from operating activities include:			
Interest received		<u>10,313,298</u>	<u>9,497,440</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(13,975,069)</u>	<u>(9,376,977)</u>

The notes on pages 104 to 230 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of RMB, unless otherwise stated)

1 REPORTING ENTITY

Shengjing Bank Co., Ltd. (the “Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). These consolidated interim financial statements (the “interim financial report”) as at and for the six months ended 30 June 2018 comprise the Bank and its subsidiaries (together referred to as the “Group”). The principal activities of the Group are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the China Bank Insurance Regulatory Commission (the “CBIRC”). The Bank mainly operated in mainland China, which, for the purpose of this interim financial report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

As at 30 June 2018, details of the subsidiaries are as follows:

	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei Fumin Village Bank Co., Ltd. (“Shenyang Shenbei”)	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin Fumin Village Bank Co., Ltd. (“Shenyang Xinmin”)	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku Fumin Village Bank Co., Ltd. (“Shenyang Faku”)	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong Fumin Village Bank Co., Ltd. (“Shenyang Liaozhong”)	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei Fumin Village Bank Co., Ltd. (“Ningbo Jiangbei”)	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan Fumin Village Bank Co., Ltd. (“Shanghai Baoshan”)	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Bank Consumer Finance Co., Ltd. (“Shengjing Consumer”)	25/02/2016	Liaoning, China	300,000	60%	Consumer finance

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board. It was authorised for issue on 23 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

IFRS 15, *Revenue from contracts with customers*

IFRS 15 includes a single model that is applicable to recognising revenue from contracts with customers and two methods of revenue recognition: recognising revenue at a point in time or over a period of time. The model is characterized by the process that conducting a five-step analysis based on the contract, to determine whether the revenue of a transaction can be recognised, the amount of revenue to be recognised, and the timing of revenue recognition.

IFRS 15 has introduced extensive qualitative and quantitative disclosure requirements, which aims to enable users of financial statements to understand the nature, amount, timing and uncertainty of the revenue and cash flows from contracts with customers. Entities can apply the standard with the full retrospective method, or can start to adopt the standard since the date of initial application and adjust the opening balance at that date. The disclosure in the transitional period varies according to different methods adopted by the entities.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transition impact to retained earnings.

IFRS 9, *Financial instruments*

IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. IFRS 9 became effective for annual periods beginning on or after 1 January 2018, which requires the Group to make retrospective adjustments. Exercising the exemption, the Group did not restate information in the comparative period, and included the conversion and adjustment to the initial shareholders' equity on 1 January 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

Classification and measurement

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

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. For financial assets that are eligible to be measured at amortised cost or fair value through other comprehensive income, the Group is still able to irrevocably designate them as financial assets at fair value through profit or loss at their initial recognition. If a debt instrument is classified as fair value through other comprehensive income, then its interest income, impairments, exchange gains and losses, and gains/losses on disposal will be recognised in profit or loss.
- For equity investments, the classification is fair value through profit or loss regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that equity investment as financial assets at fair value through other comprehensive income. If an equity investment is designated as financial assets at fair value through other comprehensive income then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without reclassification to profit or loss.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will be unnecessary for the entity to recognise impairment losses after a loss event occurs. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses.

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising the hedging ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 introduces a large number of new disclosure requirements, particularly the content relating to hedge accounting, credit risk and expected credit losses.

Transition

IFRS 9 became effective from 1 January 2018. Exercising the exemption, the Group did not restate the comparative figures in prior periods and just adjusted the net assets at the beginning of 2018 according to the impact of the data.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

The following table provides the amount of Group's financial instruments listed on 1 January 2018, according to the original classification and measurement categories of IAS 39 and the new classification and measurement categories of IFRS 9 respectively.

Financial instruments category	IAS 39		IFRS 9	
	Classification under IAS 39	Carrying amount	Classification under IFRS 9	Carrying amount
Financial assets				
Cash and deposits with Central Bank	Financial assets measured at amortised cost (Loans and receivables)	84,201,957	Financial assets measured at amortised cost	84,201,957
Deposits with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	35,414,260	Financial assets measured at amortised cost	35,398,960
Precious metals	Financial assets at fair value through profit or loss	274,310	Financial assets at fair value through profit or loss (Standards requirement)	274,310
Derivative financial assets	Financial assets at fair value through profit or loss	429,386	Financial assets at fair value through profit or loss (Standards requirement)	429,386
Placements with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	34,327,733	Financial assets measured at amortised cost	34,317,880
Financial assets held under resale agreements	Financial assets measured at amortised cost (Loans and receivables)	20,339,752	Financial assets measured at amortised cost	20,334,470
Loans and advances to customers	Financial assets measured at amortised cost (Loans and receivables)	271,782,787	Financial assets measured at amortised cost	269,898,814
			Financial assets at fair value through other comprehensive income	1,953,653

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

Financial instruments category	IAS 39		IFRS 9	
	Classification under IAS 39	Carrying amount	Classification under IFRS 9	Carrying amount
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income (Available-for-sale financial assets)	103,729,104	Financial assets at fair value through other comprehensive income	47,993,563
			Financial assets at fair value through profit or loss (Standards requirement)	55,838,420
Held-to-maturity investments	Financial assets measured at amortised cost (Held-to-maturity investments)	224,536,165	Financial assets measured at amortised cost	224,510,091
Loans and receivables	Financial assets measured at amortised cost (Loans and receivables)	238,100,568	Financial assets measured at amortised cost	233,685,878
			Financial assets at fair value through profit or loss (Standards requirement)	4,437,123
Other assets	Financial assets measured at amortised cost (Loans and receivables)	434,447	Financial assets measured at amortised cost	434,447
Financial liabilities				
Derivative financial liabilities	Financial assets at fair value through profit or loss	1,268,879	Financial assets at fair value through profit or loss (Standards requirement)	1,268,879
Financial liabilities at fair value through profit or loss	Financial assets at fair value through profit or loss (Held for sale)	18,553,887	Financial assets at fair value through profit or loss (Standards requirement)	18,553,887
Debt securities issued	Financial assets measured at amortised cost	140,920,240	Financial assets measured at amortised cost	140,920,240

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

The following financial assets has been reclassified and remeasured on transition to IFRS 9 from IAS 39 on 1 January 2018.

	Carrying amount under IAS 39 As at <i>Note</i> 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 As at 1 January 2018
Financial assets				
<i>Financial assets measured at amortised cost</i>				
Cash and deposits with Central Bank				
Balance presented according to IAS 39 and IFRS 9	84,201,957	-	-	84,201,957
Deposits with banks and other financial institutions				
Balance presented according to IAS 39	35,414,260	-	-	35,414,260
Remeasurement: ECL allowance	-	-	(15,300)	<u>(15,300)</u>
Balance presented according to IFRS 9				35,398,960
Placements with banks and other financial institutions				
Balance presented according to IAS 39	34,327,733	-	-	34,327,733
Remeasurement: ECL allowance	-	-	(9,853)	<u>(9,853)</u>
Balance presented according to IFRS 9				34,317,880
Financial assets held under resale agreements				
Balance presented according to IAS 39	20,339,752	-	-	20,339,752
Remeasurement: ECL allowance	-	-	(5,282)	<u>(5,282)</u>
Balance presented according to IFRS 9				20,334,470

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

		Carrying amount under IAS 39			Carrying amount under IFRS 9
		As at			As at
	Note	31 December 2017	Reclassification	Remeasurement	1 January 2018
Loans and advances to customers					
Balance presented according to IAS 39		271,782,787	-	-	271,782,787
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	A	-	(1,915,480)	-	(1,915,480)
Remeasurement: ECL allowance		-	-	31,507	31,507
Balance presented according to IFRS 9					269,898,814
Financial assets measured at amortised cost					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from held-to-maturity investments (IAS 39)	B	-	224,536,165	-	224,536,165
Remeasurement: ECL allowance		-	-	(26,074)	(26,074)
Add: transferred from loans and receivables (IAS 39)	B	-	233,600,568	-	233,600,568
Remeasurement: ECL allowance		-	-	85,310	85,310
Balance presented according to IFRS 9					458,195,969
Held-to-maturity investments					
Balance presented according to IAS 39		224,536,165	-	-	224,536,165
Less: transferred to amortised cost (IFRS 9)	B	-	(224,536,165)	-	(224,536,165)
Balance presented according to IFRS 9					-

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

	Note	Carrying amount under IAS 39			Carrying amount under IFRS 9
		As at 31 December 2017	Reclassification	Remeasurement	As at 1 January 2018
Loans and receivables					
Balance presented according to IAS 39		238,100,568	-	-	238,100,568
Less: transferred to amortised cost (IFRS 9)	B	-	(233,600,568)	-	(233,600,568)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	C	-	(4,500,000)	-	<u>(4,500,000)</u>
Balance presented according to IFRS 9					-
Other assets					
Balance presented according to IAS 39 and IFRS 9		<u>434,447</u>	-	-	<u>434,447</u>
Subtotal		<u>909,137,669</u>	<u>(6,415,480)</u>	<u>60,308</u>	<u>902,782,497</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

	Carrying amount under IAS 39 As at			Carrying amount under IFRS 9 As at
<i>Note</i>	31 December 2017	Reclassification	Remeasurement	1 January 2018
<i>Financial assets at fair value through profit or loss</i>				
Precious metals				
Balance presented according to IAS 39 and IFRS 9	274,310	-	-	274,310
Derivative financial assets				
Balance presented according to IAS 39 and IFRS 9	429,386	-	-	429,386
Financial assets at fair value through profit or loss				
Balance presented according to IAS 39	-	-	-	-
Add: transferred from available-for-sale financial assets (IAS 39)	-	55,963,890	-	55,963,890
	D			
Remeasurement: from cost to fair value	-	-	(125,470)	(125,470)
Add: transferred from loans and receivables (IAS 39)	-	4,500,000	-	4,500,000
	C			
Remeasurement: from amortised cost to fair value	-	-	(62,877)	(62,877)
Balance presented according to IFRS 9	<u>703,696</u>	<u>60,463,890</u>	<u>(188,347)</u>	<u>60,979,239</u>
Subtotal	<u>703,696</u>	<u>60,463,890</u>	<u>(188,347)</u>	<u>60,979,239</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

	Note	Carrying amount under IAS 39			Carrying amount under IFRS 9
		As at 31 December 2017	Reclassification	Remeasurement	As at 1 January 2018
<i>Financial assets at fair value through other comprehensive income</i>					
Loans and advances to customers					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from loans and advances to customers (IAS 39)	A	-	1,915,480	-	1,915,480
Remeasurement: release the allowance for impairment losses under IAS 39		-	-	40,048	40,048
Remeasurement: from amortised cost to fair value		-	-	(1,875)	(1,875)
Balance presented according to IFRS 9					1,953,653
<i>Financial assets at fair value through other comprehensive income</i>					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from available-for-sale financial assets (IAS 39)	B	-	47,765,214	-	47,765,214
Remeasurement: fair value movement		-	-	228,349	228,349
Balance presented according to IFRS 9					47,993,563

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

		Carrying amount under IAS 39			Carrying amount under IFRS 9
		As at			As at
	Note	31 December 2017	Reclassification	Remeasurement	1 January 2018
Available-for-sale financial assets(IAS 39)					
Balance presented according to IAS 39		103,729,104	-	-	103,729,104
Less: transferred to financial assets at fair value through other comprehensive income	B	-	(47,765,214)	-	(47,765,214)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	D	-	(55,963,890)	-	(55,963,890)
Balance presented according to IFRS 9					-
Subtotal		<u>103,729,104</u>	<u>(54,048,410)</u>	<u>266,522</u>	<u>49,947,216</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

	Carrying amount under IAS 39			Carrying amount under IFRS 9
	As at 31 December 2017	Reclassification	Remeasurement	As at 1 January 2018
Financial liabilities				
<i>Financial liabilities measured at amortised cost</i>				
Debt securities issued				
Balance presented according to IAS 39 and IFRS 9	140,920,240	-	-	140,920,240
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative financial liabilities				
Balance presented according to IAS 39 and IFRS 9	1,268,879	-	-	1,268,879
Financial liabilities at fair value through profit or loss				
Balance presented according to IAS 39 and IFRS 9	<u>18,553,887</u>	<u>-</u>	<u>-</u>	<u>18,553,887</u>
Subtotal	<u>19,822,766</u>	<u>-</u>	<u>-</u>	<u>19,822,766</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

- A. Certain loans and advances to customers held by the Group originally classified as receivables were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.
- B. Certain debt instruments' classification under IAS 39 is replaced by the classification under IFRS 9 at the same measurement methods.
 - (i) Certain debt instruments originally classified as receivables were classified as financial assets at amortised cost under IFRS 9.
 - (ii) Certain debt instruments originally classified as held-to-maturity investments were classified as financial assets at amortised cost under IFRS 9.
 - (iii) Certain debt instruments originally classified as available-for-sale financial assets were classified as financial assets at fair value through comprehensive income under IFRS 9.
- C. Certain debt instruments originally classified as receivables, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9.
- D. Certain available-for-sale financial assets, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

At initial application date, the ending balance of the allowance of financial assets impairment losses from IAS 39 to IFRS 9 is reconciled as follows:

	Allowance appropriated according to IAS 39/Provisions recognised under IAS 37 As at 31 December 2017	Reclassification	Remeasurement	Allowance appropriated under IFRS 9 As at 1 January 2018
Loans and advances (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Cash and deposits with Central Bank	-	-	-	-
Deposits with banks and other financial institutions	-	-	15,300	15,300
Placements with banks and other financial institutions	-	-	9,853	9,853
Financial assets held under resale agreements	-	-	5,282	5,282
Loans and advances to customers	7,730,631	-	(71,555)	7,659,076
Loans and receivables	1,413,000	-	(85,310)	1,327,690
Other assets	312,097	-	-	312,097

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

	Allowance appropriated according to IAS 39/Provisions recognised under IAS 37 As at 31 December 2017	Reclassification	Remeasurement	Allowance appropriated under IFRS 9 As at 1 January 2018
Provision reserve (IFRS 9)				
Loans and advances to customers at fair value through other comprehensive income	–	–	982	982
Held-to-maturity securities (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Financial assets measured at amortised cost	–	–	26,074	26,074
Provision reserve (IFRS 9)				
Financial assets at fair value through other comprehensive income	–	–	8,801	8,801
Credit commitments and financial guarantee contracts				
Credit commitments	–	–	921,412	921,412

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING

(a) Business Segment

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, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, and remittance and settlement services.

Retail banking

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

Treasury business

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

Others

Others represent equity investment and related income and any other business which cannot form a single reportable segment.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

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, with the exception of deferred income tax assets. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

	Six months ended 30 June 2018				Total
	Corporate banking	Retail banking	Treasury business	Others	
Operating income					
External net interest income/ (expense)	3,663,696	(2,054,531)	3,501,357	–	5,110,522
Internal net interest income/ (expense)	18,063	2,285,868	(2,303,931)	–	–
Net interest income	3,681,759	231,337	1,197,426	–	5,110,522
Net fee and commission income	159,318	178,721	35,387	–	373,426
Net trading gains	–	–	1,064,286	–	1,064,286
Net gains arising from investments	–	–	1,180,527	880	1,181,407
Net foreign exchange losses	–	–	(1,719,387)	–	(1,719,387)
Other operating income	3,466	714	5,122	9,456	18,758

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income	3,844,543	410,772	1,763,361	10,336	6,029,012
Operating expenses	(1,157,187)	(366,396)	(289,397)	(3,129)	(1,816,109)
Impairment losses on assets	(1,762,582)	4,000	507,925	-	(1,250,657)
Profit before taxation	<u>924,774</u>	<u>48,376</u>	<u>1,981,889</u>	<u>7,207</u>	<u>2,962,246</u>
Other segment information					
– Depreciation and amortisation	<u>145,717</u>	<u>46,577</u>	<u>7,194</u>	<u>-</u>	<u>199,488</u>
– Capital expenditure	<u>127,883</u>	<u>40,877</u>	<u>6,314</u>	<u>-</u>	<u>175,074</u>

	30 June 2018				
	Corporate Banking	Retail banking	Treasury business	Others	Total
Segment assets	365,974,214	29,504,182	560,600,557	-	956,078,953
Deferred tax assets					<u>1,871,439</u>
Total assets					<u>957,950,392</u>
Segment liabilities/Total liabilities	<u>354,515,729</u>	<u>163,504,060</u>	<u>384,794,666</u>	<u>1,140,592</u>	<u>903,955,047</u>
Credit commitments	<u>162,301,122</u>	<u>2,849,036</u>	<u>-</u>	<u>-</u>	<u>165,150,158</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	Six months ended 30 June 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	1,359,864	(1,912,411)	6,022,047	–	5,469,500
Internal net interest income/ (expense)	2,090,178	2,134,699	(4,224,877)	–	–
Net interest income	3,450,042	222,288	1,797,170	–	5,469,500
Net fee and commission income	782,109	271,641	13,756	–	1,067,506
Net trading losses	–	–	(685,600)	–	(685,600)
Net gains arising from investments	–	–	18,376	23,111	41,487
Net foreign exchange gains	–	–	568,972	–	568,972
Other operating income	1,461	737	–	5,376	7,574
Operating income	4,233,612	494,666	1,712,674	28,487	6,469,439
Operating expenses	(1,197,743)	(335,515)	(111,826)	(851)	(1,645,935)
Impairment losses on assets	(567,837)	(10,000)	(26,000)	–	(603,837)
Profit before taxation	<u>2,468,032</u>	<u>149,151</u>	<u>1,574,848</u>	<u>27,636</u>	<u>4,219,667</u>
Other segment information					
– Depreciation and amortisation	<u>135,429</u>	<u>39,047</u>	<u>6,677</u>	–	<u>181,153</u>
– Capital expenditure	<u>240,545</u>	<u>69,353</u>	<u>11,860</u>	–	<u>321,758</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	30 June 2017				Total
	Corporate Banking	Retail banking	Treasury business	Others	
Segment assets	313,698,003	18,058,856	604,969,296	384,025	937,110,180
Deferred tax assets					<u>1,600,930</u>
Total assets					<u><u>938,711,110</u></u>
Segment liabilities/Total liabilities	<u>355,026,741</u>	<u>144,941,590</u>	<u>388,775,016</u>	<u>1,540,383</u>	<u>890,283,730</u>
Credit commitments	<u>152,350,840</u>	<u>2,146,210</u>	<u>-</u>	<u>-</u>	<u>154,497,050</u>

(b) Geographical information

The Group operates principally in mainland China with Headquarter Operation Department and eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Northeast China" refers to headquarter and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong, and Shengjing Consumer;

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information (Continued)

- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

	Operating income	
	Six months ended 30 June	
	2018	2017
Northeast China	5,069,834	5,506,354
North China	848,244	730,088
Others	110,934	232,997
Total	6,029,012	6,469,439

	Non-current assets (Note i)	
	30 June 2018	31 December 2017
Northeast China	5,169,912	5,169,995
North China	309,508	327,394
Others	27,675	34,121
Total	5,507,095	5,531,510

Note:

- (i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income arising from		
Deposits with Central Bank	554,149	435,722
Deposits and placements with banks and other financial institutions	1,096,160	1,291,830
Financial assets held for sale	11,067	84,846
Loans and advances to customers		
– Corporate loans and advances	8,579,521	6,821,926
– Personal loans and advances	391,929	213,147
– Discounted bills	121,536	84,916
Financial assets held under resale agreements	66,405	133,165
Financial investments	10,257,366	9,377,835
Subtotal	21,078,133	18,443,387
Interest expense arising from		
Borrowings from Central Bank	(286,249)	(1,390,720)
Deposits and placements from banks and other financial institutions	(3,975,772)	(1,683,352)
Deposits from customers	(6,498,360)	(7,547,691)
Financial assets sold under repurchase agreements	(1,228,429)	(465,268)
Debt securities issued	(3,978,801)	(1,886,856)
Subtotal	(15,967,611)	(12,973,887)
Net interest income	5,110,522	5,469,500
Of which:		
Interest income arising from impaired financial assets identified	60,563	52,124

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME (CONTINUED)

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB21,067 million (the six months ended 30 June 2017: RMB18,359 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB15,968 million (the six months ended 30 June 2017: RMB12,974 million).

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Fee and commission income		
Agency and custody services fees	319,404	1,095,050
Settlement and clearing services fees	108,731	68,291
Bank card services fees	21,608	15,278
Subtotal	449,743	1,178,619
Fee and commission expense	(76,317)	(111,113)
Net fee and commission income	373,426	1,067,506

7 NET TRADING GAINS/(LOSSES)

Net trading gains/(losses) include gains/(losses) arising from the buying and selling of, and changes in the fair value of debt securities held for trading purpose and derivative financial instruments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

8 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2018	2017
Net gains on financial assets at fair value through profit or loss	1,017,157	–
Net gains on disposal of financial assets measured at amortised cost	140,044	–
Dividends from designated as financial assets at fair value through other comprehensive income	15,730	–
Net gains on disposal of financial assets at fair value through other comprehensive income	8,476	–
Dividends from available-for-sale equity investments	–	23,111
Net gains on disposal of available-for-sale financial assets	–	18,376
	<u>1,181,407</u>	<u>41,487</u>
Total	<u>1,181,407</u>	<u>41,487</u>

9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2018	2017
Rental income	10,099	1,158
Government grants	7,150	5,310
Handling charge income	713	737
Others	796	369
	<u>18,758</u>	<u>7,574</u>
Total	<u>18,758</u>	<u>7,574</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

10 OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
Staff costs		
– Salaries, bonuses and allowances	717,111	731,469
– Pension and annuity	118,429	99,825
– Other social insurance	93,954	86,604
– Housing allowances	45,458	39,852
– Supplementary retirement benefits	3,260	1,181
– Others	44,018	43,519
	<u>1,022,230</u>	<u>1,002,450</u>
Subtotal	1,022,230	1,002,450
Depreciation and amortisation	199,488	181,153
Rental and property management expenses	114,607	116,489
Office expenses	103,240	106,223
Tax and surcharges	18,435	93,408
Other general and administrative expenses	358,109	146,212
	<u>358,109</u>	<u>146,212</u>
Total	<u>1,816,109</u>	<u>1,645,935</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2018	2017
Deposits and placements with banks and other financial institutions	(10,947)	–
Financial assets held under resale agreements	(4,748)	–
Loans and advances to customers	1,771,793	583,574
Financial investments:		
Financial assets at fair value through other comprehensive income	(4,209)	–
Financial assets measured at amortised cost	12,339	–
Loans and receivables	–	26,000
Credit commitment	(500,360)	–
Others	(13,211)	(5,737)
Total	1,250,657	603,837

12 INCOME TAX EXPENSE

(a) Income tax for the period:

	Six months ended 30 June	
	2018	2017
Current tax	3,501	904,518
Deferred tax	120,686	(189,047)
Total	124,187	715,471

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended 30 June	
	2018	2017
Profit before taxation	2,962,246	4,219,667
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	740,562	1,054,917
Non-deductible expenses		
– Entertainment expenses	1,358	1,869
– Others	771	805
	2,129	2,674
Non-taxable income	(618,504)	(342,120)
Income tax	124,187	715,471

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Six months ended 30 June	
	2018	2017
Net profit attributable to equity shareholders of the Bank	2,840,709	3,506,738
Weighted average number of ordinary shares <i>(in thousands)</i>	5,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank <i>(in RMB)</i>	0.49	0.60

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

14 CASH AND DEPOSITS WITH CENTRAL BANK

	<i>Note</i>	30 June 2018	31 December 2017
Cash on hand		762,721	809,636
Deposits with Central Bank			
– Statutory deposit reserves	14(a)	62,405,798	55,896,497
– Surplus deposit reserves	14(b)	15,826,663	26,758,129
– Foreign currency risk reserves	14(c)	–	631,823
– Fiscal deposits		140,018	105,872
Subtotal		78,372,479	83,392,321
Total		79,135,200	84,201,957

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (CONTINUED)

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

	30 June 2018	31 December 2017
Reserve ratio for RMB deposits	14.0%	13.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The foreign currency risk reserves are maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserves are payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign currency risk reserves are non-interest bearing and will be repayable in 12 months. On 11 September 2017, the PBOC changed the foreign currency risk reserve ratio from 20% to 0%.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Deposits in mainland China		
– Banks	40,199,213	32,672,389
– Other financial institutions	4,524	4,505
Deposits outside mainland China		
– Banks	<u>1,479,262</u>	<u>2,737,366</u>
Subtotal	41,682,999	35,414,260
Less: Provision for impairment losses	<u>(13,009)</u>	–
Total	<u><u>41,669,990</u></u>	<u><u>35,414,260</u></u>

(b) Movements of provision for impairment losses

	30 June 2018
As at 1 January 2018 (<i>Note 3</i>)	15,300
Net release for the period	<u>(2,291)</u>
As at the end of the period	<u><u>13,009</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

16 FINANCIAL ASSETS HELD FOR SALE

	30 June 2018	31 December 2017
Debt securities at fair value listed outside Hong Kong		
– Policy banks	1,505,351	–

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Placements in mainland China		
– Banks	2,150,395	31,127,733
– Other financial institutions	2,500,000	3,200,000
Subtotal	4,650,395	34,327,733
Less: Provision for impairment losses	(1,197)	–
Total	4,649,198	34,327,733

(b) Movements of provision for impairment losses

	30 June 2018
As at 1 January 2018 (Note 3)	9,853
Net release for the period	(8,656)
As at the end of the period	1,197

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

(a) Analysed by nature of contract

	30 June 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	156,848,574	2,062,958	(1,198,283)
Interest rate swaps	65,560,000	129,971	(225,295)
Precious metal derivatives	15,181,437	10,128	(443,380)
Foreign exchange forwards	2,140,999	17,721	(13,942)
Total	239,731,010	2,220,778	(1,880,900)

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	123,998,639	278,127	(1,123,073)
Precious metal derivatives	19,267,156	125,169	(119,369)
Interest rate swaps	6,500,000	1,550	(7,460)
Foreign exchange forwards	732,773	24,540	(18,977)
Total	150,498,568	429,386	(1,268,879)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Analysed by credit risk-weighted amount

	30 June 2018	31 December 2017
Currency swaps	392,121	309,997
Precious metal derivatives	37,954	48,168
Foreign exchange forwards	13,470	5,266
Interest rate swaps	–	16,250
Total	<u>443,545</u>	<u>379,681</u>

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the CBIRC.

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In mainland China		
– Banks	1,154,900	20,339,752
– Other financial institutions	<u>3,440,492</u>	–
Subtotal	4,595,392	20,339,752
Less: Provision for impairment losses	<u>(534)</u>	–
Total	<u>4,594,858</u>	<u>20,339,752</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	30 June 2018	31 December 2017
Debt securities held under resale agreements	4,595,392	20,339,752
Less: Provision for impairment losses	(534)	–
	<u>4,594,858</u>	<u>20,339,752</u>

(c) Movements of provision for impairment losses

	30 June 2018
As at 1 January 2018 <i>(Note 3)</i>	5,282
Net release for the period	(4,748)
As at the end of the period	<u>534</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2018	31 December 2017
Measured at amortised cost:		
Corporate loans and advances	311,146,010	262,549,690
Personal loans and advances		
– Residential mortgage	14,054,632	9,227,270
– Personal consumption loans	3,858,017	3,988,457
– Personal business loans	890,919	1,062,927
– Credit cards	697,956	674,173
– Others	35,630	55,372
Subtotal	19,537,154	15,008,199
Discounted bills	–	1,955,529
Gross loans and advances to customers measured at amortised cost	330,683,164	279,513,418
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(9,325,411)	(7,730,631)
Measured at fair value through other comprehensive income:		
– Corporate loans and advances	969,889	–
– Discounted bills	2,485,792	–
Gross financial assets at fair value through other comprehensive income	3,455,681	–
Net loans and advances to customers	324,813,434	271,782,787

As at 30 June 2018, the Group's provision amount for loans and advances to customers measured at fair value through other comprehensive income is RMB9 million (December 31 2017: nil), as detailed in Note 20(e).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector

	30 June 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	147,524,585	44%	73,874,007
Manufacturing	43,398,658	13%	12,111,679
Renting and business activities	42,570,362	13%	21,314,707
Real estate	24,559,456	7%	22,292,056
Construction	14,726,179	4%	10,040,032
Information transmission, software and information technology services	6,415,945	2%	3,146,208
Accommodation and catering	6,005,047	2%	5,669,217
Production and supply of electric power, gas and water	5,180,319	2%	1,623,747
Transportation, storage and postal services	4,961,027	1%	1,030,227
Water, environment and public utility management	3,628,250	1%	668,250
Agriculture, forestry, animal husbandry and fishery	2,959,889	1%	739,150
Mining	2,727,397	1%	319,397
Culture, sports and entertainment	1,795,274	1%	280,585
Others	5,663,511	1%	2,448,727
Subtotal of corporate loans and advances	312,115,899	93%	155,557,989
Personal loans and advances	19,537,154	6%	17,699,073
Discounted bills	2,485,792	1%	2,485,792
Gross loans and advances to customers	<u>334,138,845</u>	<u>100%</u>	<u>175,742,854</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector (Continued)

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	100,926,576	36%	44,694,794
Renting and business activities	43,369,518	16%	18,913,028
Manufacturing	40,540,165	15%	10,573,149
Real estate	28,298,413	10%	26,111,123
Construction	10,241,283	3%	6,387,504
Transportation, storage and postal services	7,529,093	3%	1,087,833
Accommodation and catering	6,151,850	2%	5,567,630
Production and supply of electric power, gas and water	4,624,882	2%	1,804,721
Mining	2,821,800	1%	456,800
Agriculture, forestry, animal husbandry and fishery	2,618,419	1%	365,219
Culture, sports and entertainment	2,527,612	1%	1,044,100
Household and other services	1,696,850	1%	437,150
Public administration and social organisations	180,000	0%	–
Others	11,023,229	3%	2,650,084
Subtotal of corporate loans and advances	262,549,690	94%	120,093,135
Personal loans and advances	15,008,199	5%	12,887,890
Discounted bills	1,955,529	1%	1,955,529
Gross loans and advances to customers	<u>279,513,418</u>	<u>100%</u>	<u>134,936,554</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	30 June 2018	31 December 2017
Unsecured loans	19,348,849	18,528,124
Guaranteed loans	139,047,142	126,048,740
Loans secured by tangible assets other than monetary assets	112,851,386	109,919,300
Loans secured by intangible assets or monetary assets	<u>62,891,468</u>	<u>25,017,254</u>
Gross loans and advances to customers	<u>334,138,845</u>	<u>279,513,418</u>
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(9,325,411)</u>	<u>(7,730,631)</u>
Net loans and advances to customers	<u><u>324,813,434</u></u>	<u><u>271,782,787</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

	30 June 2018				Total
	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	
Unsecured loans	1,018,096	4,471	14,699	1,186	1,038,452
Guaranteed loans	8,966,562	450,125	2,591,677	48,285	12,056,649
Loans secured by tangible assets other than monetary assets	6,180,824	627,346	724,518	149,815	7,682,503
Loans secured by intangible assets or monetary assets	<u>34,500</u>	<u>9,778</u>	<u>–</u>	<u>70,000</u>	<u>114,278</u>
Total	<u>16,199,982</u>	<u>1,091,720</u>	<u>3,330,894</u>	<u>269,286</u>	<u>20,891,882</u>
As a percentage of gross loans and advances to customers	<u>4.84%</u>	<u>0.33%</u>	<u>1.00%</u>	<u>0.08%</u>	<u>6.25%</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period (Continued)

	31 December 2017				Total
	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	
Unsecured loans	8,856	2,775	19,412	142	31,185
Guaranteed loans	112,294	546,732	2,441,677	47,096	3,147,799
Loans secured by tangible assets other than monetary assets	1,123,008	86,577	783,500	70,185	2,063,270
Loans secured by intangible assets or monetary assets	—	—	—	70,000	70,000
Total	<u>1,244,158</u>	<u>636,084</u>	<u>3,244,589</u>	<u>187,423</u>	<u>5,312,254</u>
As a percentage of gross loans and advances to customers	<u>0.44%</u>	<u>0.23%</u>	<u>1.16%</u>	<u>0.07%</u>	<u>1.90%</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Movements of provision for impairment losses

As at 30 June 2018, the movements of provision for loans and advances to customers are as follows:

(i) **Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:**

	Six months ended 30 June 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses - not credit-impaired loans	Lifetime expected credit losses - credit-impaired loans	
As at 1 January (Note 3)	3,347,500	1,382,476	2,929,100	7,659,076
Transferred:				
– to expected credit losses over the next 12 months	(200,532)	198,430	2,102	–
– to lifetime expected credit losses – not credit-impaired loans	228,222	(377,778)	149,556	–
– to lifetime expected credit losses – credit-impaired loans	1,629	370	(1,999)	–
Net (release)/charge for the period	(1,722,702)	4,069,885	(583,761)	1,763,422
Unwinding of discount	–	–	(60,563)	(60,563)
Write-offs	–	–	(36,543)	(36,543)
Recoveries	–	–	19	19
As at 30 June	1,654,117	5,273,383	2,397,911	9,325,411

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

(ii) *Movements of provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income:*

	Six months ended 30 June 2018			Total
	Expected credit losses over the next 12 months	Lifetime		
		expected credit losses - not credit-impaired loans	Lifetime expected credit losses - credit-impaired loans	
As at 1 January <i>(Note 3)</i>	982	-	-	982
Net charge for the period	8,371	-	-	8,371
As at 30 June	9,353	-	-	9,353

As at 31 December 2017, the movements of provision for loans and advances to customers are as follows:

	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	4,379,900	102,589	2,053,429	6,535,918
Charge for the year	1,983,638	73,543	472,843	2,530,024
Release for the year	(857,152)	(54,972)	(305,288)	(1,217,412)
Unwinding of discount	-	-	(110,278)	(110,278)
Write-offs	-	(8,866)	-	(8,866)
Recoveries	-	27	1,218	1,245
As at 31 December	5,506,386	112,321	2,111,924	7,730,631

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Analysed by credit quality

	30 June 2018
Gross balance of loans and advances to customers	
– Expected credit losses over the next 12 months	304,963,421
– Lifetime expected credit losses – not credit-impaired loans	24,207,416
– Lifetime expected credit losses – credit-impaired loans	<u>4,968,008</u>
	<u>334,138,845</u>
Less: allowance for impairment losses	
– Expected credit losses over the next 12 months	(1,654,117)
– Lifetime expected credit losses – not credit-impaired loans	(5,273,383)
– Lifetime expected credit losses – credit-impaired loans	<u>(2,397,911)</u>
	<u>(9,325,411)</u>
Net balance	
– Expected credit losses over the next 12 months	303,309,304
– Lifetime expected credit losses – not credit-impaired loans	18,934,033
– Lifetime expected credit losses – credit-impaired loans	<u>2,570,097</u>
	<u>324,813,434</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Analysed by credit quality (Continued)

	31 December 2017
Gross balance of loans and advances to customers	
– Neither overdue nor credit-impaired	274,114,939
– Overdue but not credit-impaired	1,242,649
– Credit-impaired	<u>4,155,830</u>
	<u>279,513,418</u>
Less: allowance for impairment losses	
– Neither overdue nor credit-impaired	(5,431,721)
– Overdue but not credit-impaired	(74,665)
– Credit-impaired	<u>(2,224,245)</u>
	<u>(7,730,631)</u>
Net balance	
– Neither overdue nor credit-impaired	268,683,218
– Overdue but not credit-impaired	1,167,984
– Credit-impaired	<u>1,931,585</u>
	<u>271,782,787</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS

	<i>Note</i>	30 June 2018	31 December 2017
Financial assets at fair value through other comprehensive income	21(a)	43,488,281	–
Financial assets measured at amortised cost	21(b)	352,485,136	–
Financial assets at fair value through profit or loss	21(c)	86,050,939	–
Available-for-sale financial assets	21(d)	–	103,729,104
Held-to-maturity investments	21(e)	–	224,536,165
Loans and receivables	21(f)	–	238,100,568
Total		482,024,356	566,365,837

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

	<i>Note</i>	30 June 2018
Debt securities at fair value listed outside Hong Kong		
– Government		4,634,529
– Policy banks		23,090,237
– Banks and other financial institutions		4,157,424
– Corporate		5,333,675
Subtotal		37,215,865
Wealth management plan		5,660,041
Equity investments		
– Unlisted	21(a)(i)	612,375
Total		43,488,281

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS (CONTINUED)

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

- (i) The Group chose to designate non-trading equity investments as at financial assets at fair value through other comprehensive income on the transition date. As at 30 June 2018, the Group's amount for these non-trading equity investments is RMB612 million. During the reporting period, the Group's dividend income from non-trading equity investments amounted to RMB16 million and included in profit or loss. As at 30 June 2018, non-trading equity investments of the Group were not disposed and no accumulated gains or losses transferred from other comprehensive income to retained earnings.

The movements of provision for financial assets at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses - not credit-impaired loans	Lifetime expected credit losses - credit-impaired loans	
As at 1 January <i>(Note 3)</i>	8,801	–	–	8,801
Net release for the period	<u>(4,209)</u>	<u>–</u>	<u>–</u>	<u>(4,209)</u>
As at 30 June	<u>4,592</u>	<u>–</u>	<u>–</u>	<u>4,592</u>

- (i) Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses or gains from impairment are included in profit or loss. Besides, the book value of the financial assets presented in the balance sheet are not reduced.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS (CONTINUED)

(b) Financial assets measured at amortised cost

	30 June 2018
Debt securities at fair value listed outside Hong Kong	
– Government	85,114,086
– Policy banks	86,414,970
– Banks and other financial institutions	7,028,283
– Corporate	<u>20,727,743</u>
Subtotal	199,285,082
Wealth management plan	69,924,816
Beneficial investment of trust	84,641,341
Less: Provision for impairment losses	<u>(1,366,103)</u>
Total	<u><u>352,485,136</u></u>

The movements of provision for financial assets at amortised cost are as follows:

	Six months ended 30 June 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses - not credit-impaired loans	Lifetime expected credit losses - credit-impaired loans	
As at 1 January (Note 3)	1,243,608	52,321	57,835	1,353,764
Transferred:				
– to expected credit losses over the next 12 months	(9,662)	–	9,662	–
Net (release)/charge for the period	<u>(705,136)</u>	<u>(52,321)</u>	<u>769,796</u>	<u>12,339</u>
As at 30 June	<u><u>528,810</u></u>	<u><u>–</u></u>	<u><u>837,293</u></u>	<u><u>1,366,103</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets at fair value through profit or loss

	30 June 2018
Debt securities at fair value listed outside Hong Kong	
– Banks and other financial institutions	2,673,833
– Corporate	1,043,122
Subtotal	3,716,955
Wealth management plan	69,230,203
Investment funds	534,871
Financial products issued by financial institutions	12,568,910
Total	86,050,939

(d) Available-for-sale financial assets

	<i>Note</i>	31 December 2017
Debt securities at fair value listed outside Hong Kong		
– Government		2,579,626
– Policy banks		18,086,614
– Banks and other financial institutions		24,945,766
– Corporate		7,661,698
Subtotal		53,273,704
Investment funds		50,071,375
Equity investments		
– Unlisted	21(d)(i)	384,025
Total		103,729,104

Note:

- (i) There is no active market for certain available-for-sale unlisted equity investments and it is the Group's intention to dispose of them as opportunities arise.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS (CONTINUED)

(e) Held-to-maturity investments

	31 December 2017
Listed outside Hong Kong	
– Government	107,016,384
– Policy banks	91,460,083
– Banks and other financial institutions	25,166,186
– Corporate	<u>893,512</u>
Total	<u><u>224,536,165</u></u>
Fair value of listed securities	<u><u>218,352,067</u></u>

(f) Loans and receivables

	<i>Note</i>	31 December 2017
Investment management products managed by securities companies		137,276,867
Investment management products under trust scheme		99,736,701
Wealth management products issued by financial institutions		<u>2,500,000</u>
Subtotal	21(f)(i)	239,513,568
Less: Provisions for loans and receivables		<u>(1,413,000)</u>
Total		<u><u>238,100,568</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 FINANCIAL INVESTMENTS (CONTINUED)

(f) Loans and receivables (Continued)

(i) Analysed by credit risk-bearing party

31 December 2017	
Loans and receivables	
– Banks and other financial institutions	116,657,958
– Corporate	114,975,610
– Government	7,880,000
Total	239,513,568

22 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost:						
As at 1 January 2017	3,563,789	632,343	1,868,082	663,202	98,254	6,825,670
Additions	37,507	115,206	664,992	81,137	2,659	901,501
CIP transfers	25,614	12,909	(38,523)	–	–	–
Disposals	(4,797)	–	–	(9,745)	–	(14,542)
As at 31 December 2017 and 1 January 2018	3,622,113	760,458	2,494,551	734,594	100,913	7,712,629
Additions	34,342	19,788	93,195	18,705	539	166,569
CIP transfers	254,280	1,730	(256,010)	–	–	–
As at 30 June 2018	3,910,735	781,976	2,331,736	753,299	101,452	7,879,198

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 PROPERTY AND EQUIPMENT (CONTINUED)

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Accumulated depreciation:						
As at 1 January 2017	(1,121,205)	(380,063)	–	(431,125)	(84,698)	(2,017,091)
Additions	(172,389)	(81,808)	–	(93,327)	(4,856)	(352,380)
Disposals	4,653	–	–	9,438	–	14,091
As at 31 December 2017 and 1 January 2018	(1,288,941)	(461,871)	–	(515,014)	(89,554)	(2,355,380)
Additions	(94,332)	(47,415)	–	(44,656)	(2,116)	(188,519)
As at 30 June 2018	<u>(1,383,273)</u>	<u>(509,286)</u>	<u>–</u>	<u>(559,670)</u>	<u>(91,670)</u>	<u>(2,543,899)</u>
Net book value:						
As at 31 December 2017	<u>2,333,172</u>	<u>298,587</u>	<u>2,494,551</u>	<u>219,580</u>	<u>11,359</u>	<u>5,357,249</u>
As at 30 June 2018	<u>2,527,462</u>	<u>272,690</u>	<u>2,331,736</u>	<u>193,629</u>	<u>9,782</u>	<u>5,335,299</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

	30 June 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	7,919,652	1,979,913	6,510,970	1,627,742
Change in fair value of derivative financial instruments	–	–	839,493	209,873
Change in fair value of available- for-sale financial assets	–	–	447,167	111,792
Supplementary retirement benefits	96,792	24,198	97,579	24,395
Cumulative tax losses	310,300	77,575	–	–
	8,326,744	2,081,686	7,895,209	1,973,802
Deferred income tax liabilities:				
Change in fair value of financial instruments at fair value through other comprehensive income	(487,017)	(121,754)	–	–
Change in fair value of derivative financial instruments	(339,878)	(84,969)	–	–
Change in fair value of financial instruments at fair value through profit or loss	(7,514)	(1,878)	–	–
Change in fair value of financial assets held for sale	(6,585)	(1,646)	–	–
	(840,994)	(210,247)	–	–
Net deferred income tax	7,485,750	1,871,439	7,895,209	1,973,802

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement

	At 31 December 2017	Changes in accounting policies	At 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2018
Deferred income tax assets:						
Allowance for impairment losses	1,627,742	205,264	1,833,006	146,907	-	1,979,913
Change in fair value of available-for-sale financial assets	111,792	(111,792)	-	-	-	-
Change in fair value of derivative financial instruments	209,873	-	209,873	(209,873)	-	-
Supplementary retirement benefits	24,395	-	24,395	(755)	558	24,198
Cumulative tax losses	-	-	-	77,575	-	77,575
Subtotal	<u>1,973,802</u>	<u>93,472</u>	<u>2,067,274</u>	<u>13,854</u>	<u>558</u>	<u>2,081,686</u>
Deferred income tax liabilities:						
Change in fair value of financial instruments at fair value through other comprehensive income	-	55,173	55,173	-	(176,927)	(121,754)
Change in fair value of derivative financial instruments	-	-	-	(84,969)	-	(84,969)
Change in fair value of financial instruments at fair value through profit or loss	-	47,087	47,087	(48,965)	-	(1,878)
Change in fair value of financial assets held for sale	-	-	-	(1,646)	-	(1,646)
Subtotal	<u>-</u>	<u>102,260</u>	<u>102,260</u>	<u>(135,580)</u>	<u>(176,927)</u>	<u>(210,247)</u>
Net deferred income tax	<u>1,973,802</u>	<u>195,732</u>	<u>2,169,534</u>	<u>(121,726)</u>	<u>(176,369)</u>	<u>1,871,439</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement (Continued)

	At 1 January 2017	Recognised in profit or loss	Recognised in other	At 31 December 2017
			comprehensive income	
Deferred income tax assets:				
Allowance for impairment losses	1,418,292	209,450	–	1,627,742
Change in fair value of available-for- sale financial assets	30,681	–	81,111	111,792
Change in fair value of derivative financial instruments	–	209,873	–	209,873
Supplementary retirement benefits	27,737	(3,544)	202	24,395
Subtotal	1,476,710	415,779	81,313	1,973,802
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	(65,585)	65,585	–	–
Subtotal	(65,585)	65,585	–	–
Net deferred income tax	1,411,125	481,364	81,313	1,973,802

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS

	<i>Note</i>	30 June 2018	31 December 2017
Interest receivable	24(a)	8,319,029	8,839,765
Value-added tax retained		–	260,467
Prepaid income tax		353,609	–
Prepayments		159,054	159,054
Settlement and clearing accounts		169,177	145,631
Reposessed assets	24(b)	136,733	136,733
Intangible assets	24(c)	108,150	108,088
Land use rights		60,011	61,206
Long-term deferred expenses		3,635	4,967
Others	24(d)	546,781	434,447
Total		<u>9,856,179</u>	<u>10,150,358</u>

(a) Interest receivable

	30 June 2018	31 December 2017
Interest receivable arising from:		
– Investments	5,577,845	7,156,463
– Loans and advances to customers	1,602,152	925,057
– Deposits with banks and other financial institutions	727,236	646,733
– Others	411,796	111,512
Total	<u>8,319,029</u>	<u>8,839,765</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS (CONTINUED)

(b) Repossessed assets

	30 June 2018	31 December 2017
Land use rights and buildings	136,733	136,733
Subtotal	136,733	136,733
Less: Impairment allowance	–	–
	<u>136,733</u>	<u>136,733</u>

(c) Intangible assets

	30 June 2018	31 December 2017
Cost:		
As at 1 January	193,914	163,432
Additions	<u>8,505</u>	<u>30,482</u>
As at 30 June/31 December	----- 202,419	----- 193,914
Accumulated amortisation:		
As at 1 January	(85,826)	(71,936)
Additions	<u>(8,443)</u>	<u>(13,890)</u>
As at 30 June/31 December	----- (94,269)	----- (85,826)
Net value:		
As at 1 January	<u>108,088</u>	<u>91,496</u>
As at 30 June/31 December	<u>108,150</u>	<u>108,088</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS (CONTINUED)

(d) Others

	30 June 2018	31 December 2017
Receivable due from disposal of non-performing assets (<i>Note (i)</i>)	653,754	653,754
Others	191,913	92,790
Subtotal	845,667	746,544
Less: Impairment allowance	(298,886)	(312,097)
	<u>546,781</u>	<u>434,447</u>

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

25 BORROWINGS FROM CENTRAL BANK

	30 June 2018	31 December 2017
Borrowings (<i>Note (i)</i>)	<u>39,430,000</u>	<u>48,160,000</u>

Note:

- (i) Borrowings from Central Bank mainly include Medium-term Lending Facility and open market operations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Deposits in mainland China		
– Banks	30,551,782	71,899,960
– Other financial institutions	<u>9,945,323</u>	<u>81,751,636</u>
Total	<u><u>40,497,105</u></u>	<u><u>153,651,596</u></u>

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Placements in mainland China		
– Banks	39,766,384	48,323,948
– Other financial institutions	<u>–</u>	<u>3,000,000</u>
Total	<u><u>39,766,384</u></u>	<u><u>51,323,948</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In mainland China		
– Banks	33,195,876	63,629,195
– Other financial institutions	595,821	11,994,070
Total	33,791,697	75,623,265

(b) Analysed by type of security held

	30 June 2018	31 December 2017
Debt securities sold under repurchase agreements	32,805,158	74,678,697
Bills sold under repurchase agreements	986,539	944,568
Total	33,791,697	75,623,265

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEPOSITS FROM CUSTOMERS

	30 June 2018	31 December 2017
Demand deposits		
– Corporate deposits	121,582,289	114,625,939
– Personal deposits	<u>15,985,384</u>	<u>14,551,352</u>
Subtotal	<u>137,567,673</u>	<u>129,177,291</u>
Time deposits		
– Corporate deposits	186,636,303	172,364,434
– Personal deposits	<u>139,808,142</u>	<u>127,528,837</u>
Subtotal	<u>326,444,445</u>	<u>299,893,271</u>
Pledged deposits		
– Acceptances	38,170,702	42,855,818
– Letters of credit	1,019,923	544,109
– Letters of guarantees	1,081,247	542,425
– Others	<u>319,179</u>	<u>322,628</u>
Subtotal	<u>40,591,051</u>	<u>44,264,980</u>
Inward and outward remittances	<u>262,634</u>	<u>245,266</u>
Total deposits from customers at amortised cost	<u><u>504,865,803</u></u>	<u><u>473,580,808</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 DEBT SECURITIES ISSUED

	Note	30 June 2018	31 December 2017
Tier two capital fixed rate debts maturing in May 2024	30(a)	2,200,000	2,200,000
Tier two capital fixed rate debts maturing in December 2025	30(b)	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	30(c)	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2019	30(d)	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	30(e)	2,000,000	2,000,000
Certificates of interbank deposit	30(f)	<u>186,983,017</u>	<u>115,720,240</u>
Total		<u>212,183,017</u>	<u>140,920,240</u>

Notes:

- (a) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) Tier two capital fixed rate debts of RMB10 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Tier two capital fixed rate debts of RMB6 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (d) Financial fixed rate bonds of RMB5 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 DEBT SECURITIES ISSUED (CONTINUED)

- (e) Financial fixed rate bonds of RMB2 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (f) As at 30 June 2018, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB185,795 million (31 December 2017: RMB114,347 million).

31 OTHER LIABILITIES

	<i>Note</i>	30 June 2018	31 December 2017
Interest payable	31(a)	12,086,379	13,659,993
Dividend payable		1,140,592	134,615
Payment and collection clearance accounts		933,285	350,121
Accrued staff cost	31(b)	430,942	404,265
Expected credit loss of credit commitment	31(c)	421,052	–
Taxes payable	31(d)	220,675	59,690
Deferred income		100,576	61,114
Dormant accounts		38,522	40,909
Others		469,991	349,764
		<u>15,842,014</u>	<u>15,060,471</u>
Total		<u>15,842,014</u>	<u>15,060,471</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(a) Interest payable

	30 June 2018	31 December 2017
Interest payable arising from:		
– Deposits from customers	10,671,456	10,964,801
– Deposits from banks and other financial institutions	241,294	1,627,531
– Borrowings from Central Bank	36,200	621,019
– Debt securities issued	634,902	222,257
– Placements from banks and other financial institutions	250,637	174,086
– Financial assets sold under repurchase agreements	14,343	33,617
– Others	237,547	16,682
	<u>12,086,379</u>	<u>13,659,993</u>
Total	<u>12,086,379</u>	<u>13,659,993</u>

(b) Accrued staff cost

	<i>Note</i>	30 June 2018	31 December 2017
Salary, bonuses and allowances payable		219,765	193,394
Pension and annuity payable	31(b)(i)	70,864	71,806
Supplementary retirement benefits payable	31(b)(ii)	96,792	97,579
Housing allowances payable		29,954	29,992
Other social insurance payable		1,893	2,212
Others		11,674	9,282
		<u>430,942</u>	<u>404,265</u>
Total		<u>430,942</u>	<u>404,265</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(b) Accrued staff cost (Continued)

(i) *Pension and annuity*

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to the total salaries and bonuses of employees, which are charged to profit or loss when the contributions are made.

(ii) *Supplementary retirement benefits*

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(c) Expected credit loss of credit commitment

	Six months ended 30 June 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses - not credit-impaired loans	Lifetime expected credit losses - credit-impaired loans	
As at 1 January (<i>Note 3</i>)	920,325	187	900	921,412
Transferred:				
– to expected credit losses over the next 12 months	(1,184)	1,184	–	–
– to lifetime expected credit losses: not credit-impaired loans	21	(21)	–	–
– to lifetime expected credit losses – credit-impaired loans	–	–	–	–
Net (release)/charge for the period	(517,639)	17,196	83	(500,360)
As at 30 June	401,523	18,546	983	421,052

(d) Taxes payable

	30 June 2018	31 December 2017
Value-added tax and surcharges payable	141,048	–
Others	79,627	59,690
Total	220,675	59,690

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 SHARE CAPITAL

Issued share capital

	30 June 2018	31 December 2017
Number of shares, issued and fully paid at par value (in thousands)	<u>5,796,680</u>	<u>5,796,680</u>

33 RESERVES

(a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”) after making good prior year’s accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank also appropriates discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

33 RESERVES (CONTINUED)

(d) Fair value reserve

	30 June 2018	31 December 2017
As at 31 December	(335,375)	(92,044)
Impact on initial application of IFRS 9 (<i>Note 3</i>)	169,856	–
As at 1 January	(165,519)	(92,044)
Changes in fair value recognised in fair value reserve	456,931	(406,098)
Transfer to profit or loss upon disposal	250,778	81,656
Less: Income tax	(176,927)	81,111
Total	365,263	(335,375)

(e) Provision reserve

	30 June 2018
As at 31 December	–
Impact on initial application of IFRS 9 (<i>Note 3</i>)	7,337
As at 1 January	7,337
Changes in fair value recognised in provision reserve	4,161
Transfer to profit or loss upon disposal	–
Less: Income tax	(1,040)
Total	10,458

(f) Deficit on remeasurement of net defined benefit liability

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

34 PROFIT DISTRIBUTION

- (a)** In accordance with the resolution of the Bank's 2017 Annual General Meeting held on 31 May 2018, the shareholders approved the following profit distribution plan for the year ended 31 December 2017 is as follows:
- Appropriated RMB757.66 million to the discretionary surplus reserve fund;
 - Appropriated RMB1,537.58 million to the general reserve;
 - Declared cash dividends of RMB1.80 per ten shares before tax and in aggregation of RMB1,043.40 million to all shareholders.
- (b)** In accordance with the resolution of the Bank's 2016 Annual General Meeting held on 16 May 2017, the shareholders approved the following profit distribution plan for the year ended 31 December 2016 is as follows:
- Appropriated RMB152.51 million to the statutory surplus reserve fund, the statutory surplus reserve fund balance reached 50% of its registered capital on 31 December 2016;
 - Appropriated RMB685.53 million to the discretionary surplus reserve fund;
 - Appropriated RMB1,763.35 million to the general reserve;
 - Declared cash dividends of RMB2.50 per ten shares before tax and in aggregation of RMB1,449.17 million to all shareholders.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	30 June 2018	30 June 2017
Cash on hand	762,721	685,711
Deposits with Central Bank other than restricted deposits	15,826,663	23,768,013
Deposits with banks and other financial institutions with original maturity of three months or less	2,839,169	33,218,923
Placements with banks and other financial institutions with original maturity of three months or less	2,500,000	7,752,720
Financial assets held under resale agreements with original maturity of three months or less	<u>4,595,392</u>	<u>4,020,050</u>
Total	<u><u>26,523,945</u></u>	<u><u>69,445,417</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of significant related parties

Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

	30 June 2018	31 December 2017
Evergrande Group (Nanchang) Co., Ltd.	17.28%	17.28%
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Shenyang Zhongyou Tipo (Group) Machinery & Equipment manufacturing Co., Ltd.	–	3.28%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances

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

(i) *Between the Bank and major shareholders*

	30 June 2018	31 December 2017
Balances at the end of the period/year:		
Deposits from customers	18,612	44,962
Guarantees received	1,570,000	1,580,500

	Six months ended 30 June 2018	2017
Transactions during the period:		
Interest expense	45	86

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) *Between the Bank and other related parties*

	30 June 2018	31 December 2017
Balances at the end of the period/year:		
Loans and advances to customers	1,009,025	1,655,976
Financial assets measured at amortised cost	9,740,000	–
Deposits from customers	6,633,840	31,799,316
Bank acceptances	60	60
Guarantees received	12,390,970	5,847,178
Loans and receivables	–	4,799,493
	Six months ended 30 June 2018	2017
Transactions during the period:		
Interest income	538,727	137,133
Interest expense	34,140	3,948
Fee and commission income	–	48

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

(i) Key management personnel remuneration

	Six months ended 30 June	
	2018	2017
Salaries and other emoluments	9,060	7,924
Discretionary bonuses	9,208	11,471
Contributions to pension schemes	820	806
Total	19,088	20,201

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

At 30 June 2018 and 31 December 2017, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

(iii) Between the Bank and key management personnel

	30 June	31 December
	2018	2017
Balances at the end of the period/year:		
Deposits from customers	11,862	14,863
	Six months ended 30 June	
	2018	2017
Transactions during the period:		
Interest expense	1,258	15

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through the Risk Control and Consumer Rights Protection Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control and Consumer Rights Protection Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(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 businesses such as credit and debt investments portfolios and guarantees granted.

Credit business

The Board 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, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Credit Approval Department is responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Institutions Department carry out credit businesses according to the Group's risk management policies and procedures.

The following credit risk management methods were applicable before 31 December 2017.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 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. |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

The following credit risk management methods were applicable from 1 January 2018 to 30 June 2018.

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- Probability of default (PD) refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.
- Exposure at default (EAD) is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.
- Loss given default (LGD) refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. Loss given default varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future years. The results of calculation for each year are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime probability of default is to deduce the marginal probability of default by using supervisory formula or conditional probability formula.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different due to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 39(a).

(ii) Loans and advances to customers

The credit risk in respect of loans and advances to customers as at the end of the reporting period is disclosed in Note 20.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iii) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating 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 2018	31 December 2017
Carrying amount		
Neither overdue nor impaired		
– Grade A to AAA	30,338,677	65,966,055
– Grade B to BBB	18,689,535	24,096,843
– Grade C to CCC	1,896,049	14,342
– Unrated	4,525	4,505
	<hr/>	<hr/>
Subtotal	50,928,786	90,081,745
Less: Provision for impairment losses	(14,740)	–
	<hr/>	<hr/>
Total	<u>50,914,046</u>	<u>90,081,745</u>

(iv) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments (Continued)

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	30 June 2018
Carrying amount	
Neither overdue nor credit-impaired	
– Government	94,368,615
– Policy banks	111,010,558
– Banks and other financial institutions	92,448,046
– Corporate	<u>184,246,759</u>
Subtotal	<u>482,073,978</u>
Less: Provision for impairment losses	<u>(528,810)</u>
Net balance	<u>481,545,168</u>
Overdue but not credit-impaired	
– Corporate	–
Less: Provision for impairment losses	<u>–</u>
Net balance	<u>–</u>
Credit-impaired	
– Corporate	1,674,586
Less: Provision for impairment losses	<u>(837,293)</u>
Net balance	<u>837,293</u>
Total	<u><u>482,382,461</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments (Continued)

	31 December 2017
Carrying amount	
Neither overdue nor impaired	
– Government	117,476,010
– Policy banks	109,546,697
– Banks and other financial institutions	166,769,910
– Corporate	123,086,234
Subtotal	516,878,851
Less: Provision for impairment losses	(1,329,169)
Net balance	515,549,682
Overdue but not impaired	
– Corporate	300,000
Less: Provision for impairment losses	(11,538)
Net balance	288,462
Impaired	
– Corporate	144,586
Less: Provision for impairment losses	(72,293)
Net balance	72,293
Total	515,910,437

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(v) Credit commitments

In addition to the Group's credit commitments disclosed in Note 39(a), the Group did not provide any other guarantee that might expose the Group to credit risk. The maximum exposure to credit risk in respect of above credit commitments as at the end of the reporting period is disclosed in Note 39(a).

(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, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control and Consumer Rights Protection Committee to supervise the market risk management conducted by the senior management. The Asset and Liability Management Department of the Bank is responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines, providing various data on market risks and other technical support. The Risk Management Department is responsible for overall market risk management.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

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.

Interest repricing 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

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.

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.

(i) 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.

(1) 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 asset and liability management department and the capital operation center of the Bank are responsible for identifying, 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

The following tables indicate the assets and liabilities analysis 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 2018					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with Central Bank	79,135,200	762,721	78,372,479	-	-	-
Deposits with banks and other financial institutions	41,669,990	-	14,100,620	27,569,370	-	-
Financial assets held for sale	1,505,351	-	-	-	-	1,505,351
Placements with banks and other financial institutions	4,649,198	-	4,351,489	297,709	-	-
Financial assets held under resale agreements	4,594,858	-	4,594,858	-	-	-
Loans and advances to customers (Note (i))	324,813,434	-	296,681,550	18,090,638	8,654,486	1,386,760
Financial investments (Note (ii))	482,024,356	612,375	61,480,235	190,662,212	131,403,087	97,866,447
Others	19,558,005	19,283,695	-	274,310	-	-
Total assets	957,950,392	20,658,791	459,581,231	236,894,239	140,057,573	100,758,558

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	30 June 2018					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from Central Bank	(39,430,000)	–	(39,430,000)	–	–	–
Deposits from banks and other financial institutions	(40,497,105)	–	(32,735,315)	(7,761,790)	–	–
Placements from banks and other financial institutions	(39,766,384)	–	(35,020,449)	(4,745,935)	–	–
Financial assets sold under repurchase agreements	(33,791,697)	–	(33,791,697)	–	–	–
Deposits from customers	(504,865,803)	–	(230,563,190)	(147,618,028)	(126,684,576)	(9)
Debt securities issued	(212,183,017)	–	(148,347,378)	(38,635,639)	(7,000,000)	(18,200,000)
Others	(33,421,041)	(17,722,914)	(943,256)	(13,625,100)	–	(1,129,771)
Total liabilities	(903,955,047)	(17,722,914)	(520,831,285)	(212,386,492)	(133,684,576)	(19,329,780)
Asset-liability gap	53,995,345	2,935,877	(61,250,054)	24,507,747	6,372,997	81,428,778

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2017					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with Central Bank	84,201,957	1,441,459	82,760,498	–	–	–
Deposits with banks and other financial institutions	35,414,260	–	11,945,550	23,468,710	–	–
Placements with banks and other financial institutions	34,327,733	–	29,746,724	4,581,009	–	–
Financial assets held under resale agreements	20,339,752	–	20,339,752	–	–	–
Loans and advances to customers (Note (i))	271,782,787	–	227,702,963	32,366,503	10,276,698	1,436,623
Financial investments (Note (iii))	566,365,837	384,025	91,900,482	220,076,674	166,346,038	87,658,618
Others	18,185,105	17,910,795	–	274,310	–	–
Total assets	1,030,617,431	19,736,279	464,395,969	280,767,206	176,622,736	89,095,241

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2017					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from Central Bank	(48,160,000)	–	(48,160,000)	–	–	–
Deposits from banks and other financial institutions	(153,651,596)	–	(119,853,312)	(33,685,284)	(113,000)	–
Placements from banks and other financial institutions	(51,323,948)	–	(45,516,887)	(5,807,061)	–	–
Financial assets sold under repurchase agreements	(75,623,265)	–	(75,623,265)	–	–	–
Deposits from customers	(473,580,808)	–	(239,929,811)	(70,486,761)	(163,164,208)	(28)
Debt securities issued	(140,920,240)	–	(101,323,017)	(14,397,223)	(7,000,000)	(18,200,000)
Others	(35,101,918)	(16,548,031)	(1,025,072)	(17,528,815)	–	–
Total liabilities	<u>(978,361,775)</u>	<u>(16,548,031)</u>	<u>(631,431,364)</u>	<u>(141,905,144)</u>	<u>(170,277,208)</u>	<u>(18,200,028)</u>
Asset-liability gap	<u>52,255,656</u>	<u>3,188,248</u>	<u>(167,035,395)</u>	<u>138,862,062</u>	<u>6,345,528</u>	<u>70,895,213</u>

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 30 June 2018 included overdue amounts (net of provision for impairment losses) of RMB12,837 million (31 December 2017: RMB1,169 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

Notes: (Continued)

(ii) As at 30 June 2018, financial investments include financial assets at fair value through other comprehensive income, financial assets measured at amortised cost, financial assets at fair value through profit or loss.

(iii) As at 31 December 2017, financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

(2) Interest rate sensitivity analysis

	30 June 2018 Increase /(decrease)	31 December 2017 Increase/ (decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	(383,926)	(940,101)
Down 100 bps parallel shift in yield curves	383,926	940,101
Change in equity		
Up 100 bps parallel shift in yield curves	(1,664,791)	(1,693,749)
Down 100 bps parallel shift in yield curves	1,793,006	1,729,086

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on simplified scenarios. 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 apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;
- 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 profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk

The Group's currency risk mainly arises from foreign exchange proprietary business and currency mismatch between deposit and loan. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

	30 June 2018			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and deposits with Central Bank	78,973,885	130,370	30,945	79,135,200
Deposits with banks and other financial institutions	39,625,519	1,503,228	541,243	41,669,990
Financial assets held for sale	1,505,351	–	–	1,505,351
Placements with banks and other financial institutions	2,498,803	2,150,395	–	4,649,198
Financial assets held under resale agreements	4,594,858	–	–	4,594,858
Loans and advances to customers	319,403,238	3,934,691	1,475,505	324,813,434
Financial investments (Note (i))	480,168,721	1,855,635	–	482,024,356
Others	19,148,213	280,605	129,187	19,558,005
Total assets	945,918,588	9,854,924	2,176,880	957,950,392

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2018			
	RMB	USD <i>(RMB equivalent)</i>	Others <i>(RMB equivalent)</i>	Total <i>(RMB equivalent)</i>
Liabilities				
Borrowings from Central Bank	(39,430,000)	–	–	(39,430,000)
Deposits from banks and other financial institutions	(40,497,059)	–	(46)	(40,497,105)
Placements from banks and other financial institutions	(3,500,000)	(35,438,556)	(827,828)	(39,766,384)
Financial assets sold under repurchase agreements	(33,791,697)	–	–	(33,791,697)
Deposits from customers	(501,510,810)	(2,367,149)	(987,844)	(504,865,803)
Debt securities issued	(212,183,017)	–	–	(212,183,017)
Others	(32,755,673)	(321,749)	(343,619)	(33,421,041)
Total liabilities	<u>(863,668,256)</u>	<u>(38,127,454)</u>	<u>(2,159,337)</u>	<u>(903,955,047)</u>
Net position	<u>82,250,332</u>	<u>(28,272,530)</u>	<u>17,543</u>	<u>53,995,345</u>
Off-balance sheet credit commitments	<u>158,462,702</u>	<u>5,029,860</u>	<u>1,657,596</u>	<u>165,150,158</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2017			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and deposits with Central Bank	83,446,636	730,893	24,428	84,201,957
Deposits with banks and other financial institutions	31,947,910	2,968,109	498,241	35,414,260
Placements with banks and other financial institutions	21,970,000	12,356,172	1,561	34,327,733
Financial assets held under resale agreements	20,339,752	–	–	20,339,752
Loans and advances to customers	269,091,209	1,945,478	746,100	271,782,787
Financial investments (Note (ii))	564,535,783	1,830,054	–	566,365,837
Others	18,007,259	49,566	128,280	18,185,105
Total assets	1,009,338,549	19,880,272	1,398,610	1,030,617,431

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2017			
	RMB	USD <i>(RMB equivalent)</i>	Others <i>(RMB equivalent)</i>	Total <i>(RMB equivalent)</i>
Liabilities				
Borrowings from Central Bank	(48,160,000)	–	–	(48,160,000)
Deposits from banks and other financial institutions	(148,162,822)	(5,488,728)	(46)	(153,651,596)
Placements from banks and other financial institutions	(12,060,000)	(38,724,786)	(539,162)	(51,323,948)
Financial assets sold under repurchase agreements	(75,623,265)	–	–	(75,623,265)
Deposits from customers	(470,911,217)	(1,904,049)	(765,542)	(473,580,808)
Debt securities issued	(140,920,240)	–	–	(140,920,240)
Others	<u>(34,765,456)</u>	<u>(270,433)</u>	<u>(66,029)</u>	<u>(35,101,918)</u>
Total liabilities	<u>(930,603,000)</u>	<u>(46,387,996)</u>	<u>(1,370,779)</u>	<u>(978,361,775)</u>
Net position	<u>78,735,549</u>	<u>(26,507,724)</u>	<u>27,831</u>	<u>52,255,656</u>
Off-balance sheet credit commitments	<u>168,883,055</u>	<u>3,074,878</u>	<u>1,070,010</u>	<u>173,027,943</u>

Note:

- (i) As at 30 June 2018, financial investments include financial assets at fair value through other comprehensive income, financial assets measured at amortised cost, financial assets at fair value through profit or loss.
- (ii) As at 31 December 2017, financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2018 Increase/ (decrease)	31 December 2017 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	(32,431)	(30,394)
Down 100 bps change of foreign exchange rate	32,431	30,394

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

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- 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 other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 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. This risk exists even if a bank's solvency remains strong.

The Group centrally manages the Bank's liquidity risk at the head office through a liquidity risk governance structure consisting of the asset and liability management committee and asset and liability management department at the head office:

- The asset and liability management committee is the Bank's liquidity risk management body that is responsible for developing, and regularly assessing and monitoring the implementation of liquidity risk management policies and measures;
- As the leading department in liquidity risk management, the asset and liability management department is responsible for developing and implementing the relevant system, setting up the warning line of the whole bank; guiding all business departments to conduct daily management of liquidity risk; supervising and implementing relevant policies of liquidity risk management; monitoring various indicators of liquidity risk; as well as conducting risk analysis regularly, and reporting to the asset and liability management committee.

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including liquidity ratio, liquidity coverage ratio, net stable funding ratio, liquidity matching rate and loan to deposit ratio. Meanwhile, the Group forecasts the liquidity on a weekly basis. The Group conducts liquidity analysis on a monthly basis, performs stress testing on liquidity risk on a quarterly basis.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis

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 2018							Total
	Indefinite (Note (iii))	Repayable on demand (Note (iii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with Central Bank	62,545,816	16,589,384	-	-	-	-	-	79,135,200
Deposit with banks and other financial institutions	-	2,228,597	1,495,484	10,376,539	27,569,370	-	-	41,669,990
Financial assets held for sale	-	-	-	-	-	-	1,505,351	1,505,351
Placement with banks and other financial institutions	-	-	3,028,469	1,323,020	297,709	-	-	4,649,198
Financial assets held under resale agreements	-	-	4,594,858	-	-	-	-	4,594,858
Loans and advances to customers	9,782,486	5,465,714	9,696,407	30,864,739	138,865,110	110,237,547	19,901,431	324,813,434
Financial investments (Note (i))	3,177,021	-	17,643,654	22,322,231	190,246,438	140,783,996	107,851,016	482,024,356
Others	8,130,353	409,787	2,923,829	2,935,241	4,816,281	342,514	-	19,558,005
Total assets	83,635,676	24,693,482	39,382,701	67,821,770	361,794,908	251,364,057	129,257,798	957,950,392

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	30 June 2018							Total
	Indefinite <i>(Note (iii))</i>	Repayable on demand <i>(Note (iii))</i>	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities								
Borrowings from the Central Bank	-	-	(39,430,000)	-	-	-	-	(39,430,000)
Deposits from banks and other financial institutions	-	(7,219,739)	(15,095,576)	(10,420,000)	(7,761,790)	-	-	(40,497,105)
Placements from banks and other financial institutions	-	-	(27,914,221)	(7,106,228)	(4,745,935)	-	-	(39,766,384)
Financial assets sold under repurchase agreements	-	-	(33,791,697)	-	-	-	-	(33,791,697)
Deposits from customers	-	(142,069,417)	(29,424,127)	(59,069,646)	(147,618,028)	(126,684,576)	(9)	(504,865,803)
Debt securities issued	-	-	(50,722,995)	(94,081,459)	(39,178,563)	(10,000,000)	(18,200,000)	(212,183,017)
Others	-	(3,805,123)	(3,485,327)	(3,115,758)	(18,964,078)	(2,824,192)	(1,226,563)	(33,421,041)
Total liabilities	<u>-</u>	<u>(153,094,279)</u>	<u>(199,863,943)</u>	<u>(173,793,091)</u>	<u>(218,268,394)</u>	<u>(139,508,768)</u>	<u>(19,426,572)</u>	<u>(903,955,047)</u>
Long/(short) position	<u>83,635,676</u>	<u>(128,400,797)</u>	<u>(160,481,242)</u>	<u>(105,971,321)</u>	<u>143,526,514</u>	<u>111,855,289</u>	<u>109,831,226</u>	<u>53,995,345</u>
Notional amount of derivatives	<u>-</u>	<u>-</u>	<u>52,429,227</u>	<u>46,830,995</u>	<u>121,632,172</u>	<u>16,988,616</u>	<u>1,850,000</u>	<u>239,731,010</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2017							Total
	Indefinite <i>(Note (iii))</i>	Repayable ondemand <i>(Note (iii))</i>	Within one month	Between one	Between	Between one	More than five years	
				month and	three months	and one year		
			(inclusive)	(inclusive)	(inclusive)			
Assets								
Cash and deposits with Central Bank	56,002,369	27,567,765	-	-	631,823	-	-	84,201,957
Deposit with banks and other financial institutions	-	3,381,550	4,876,000	3,688,000	23,468,710	-	-	35,414,260
Placement with banks and other financial institutions	-	-	23,276,758	6,469,966	4,581,009	-	-	34,327,733
Financial assets held under resale agreements	-	-	20,339,752	-	-	-	-	20,339,752
Loans and advances to customers	2,471,526	628,043	14,392,594	22,390,842	123,186,097	90,363,761	18,349,924	271,782,787
Financial investments <i>(Note (ii))</i>	456,318	288,462	21,692,926	66,883,333	166,501,050	221,666,104	88,877,644	566,365,837
Others	7,840,532	323,833	1,536,251	1,904,696	6,373,836	205,957	-	18,185,105
Total assets	66,770,745	32,189,653	86,114,281	101,336,837	324,742,525	312,235,822	107,227,568	1,030,617,431

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2017							Total
	Indefinite	Repayable ondemand	Within one month	Between one	Between	Between one	More than five years	
				month and three months (inclusive)	three months and one year (inclusive)	year and five years (inclusive)		
<i>(Note (iii))</i>	<i>(Note (iii))</i>							
Liabilities								
Borrowings from the Central Bank	-	-	(37,340,000)	(10,820,000)	-	-	-	(48,160,000)
Deposits from banks and other financial institutions	-	(5,835,468)	(63,953,890)	(50,063,954)	(33,685,284)	(113,000)	-	(153,651,596)
Placements from banks and other financial institutions	-	-	(36,665,882)	(8,851,005)	(5,807,061)	-	-	(51,323,948)
Financial assets sold under repurchase agreements	-	-	(75,188,077)	(435,188)	-	-	-	(75,623,265)
Deposits from customers	-	(176,001,352)	(22,770,177)	(41,158,282)	(70,486,761)	(163,164,208)	(28)	(473,580,808)
Debt securities issued	-	-	(61,174,101)	(37,148,916)	(14,397,223)	(10,000,000)	(18,200,000)	(140,920,240)
Others	-	(4,740,002)	(2,639,107)	(3,662,393)	(20,158,724)	(3,804,112)	(97,580)	(35,101,918)
Total liabilities	<u>-</u>	<u>(186,576,822)</u>	<u>(299,731,234)</u>	<u>(152,139,738)</u>	<u>(144,535,053)</u>	<u>(177,081,320)</u>	<u>(18,297,608)</u>	<u>(978,361,775)</u>
Long/(short) position	<u>66,770,745</u>	<u>(154,387,169)</u>	<u>(213,616,953)</u>	<u>(50,802,901)</u>	<u>180,207,472</u>	<u>135,154,502</u>	<u>88,929,960</u>	<u>52,255,656</u>
Notional amount of derivatives	<u>-</u>	<u>-</u>	<u>64,327,603</u>	<u>9,730,648</u>	<u>53,407,661</u>	<u>23,032,656</u>	<u>-</u>	<u>150,498,568</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) **Maturity analysis (Continued)**

Notes:

- (i) As at 30 June 2018, financial investments include financial assets at fair value through other comprehensive income, financial assets measured at amortised cost, financial assets at fair value through profit or loss.
- (ii) As at 31 December 2017, financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.
- (iii) For cash and deposits with Central Bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in “repayable on demand”.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of financial liabilities

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

	30 June 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from Central Bank	(39,495,617)	(39,495,617)	-	-	-	-
Deposits from banks and other financial institutions	(42,183,229)	(22,371,356)	(11,882,331)	(7,929,542)	-	-
Placements from banks and other financial institutions	(40,020,331)	(28,065,463)	(7,156,294)	(4,798,574)	-	-
Financial assets sold under repurchase agreements	(33,796,942)	(33,796,942)	-	-	-	-
Deposits from customers	(529,672,004)	(171,506,414)	(62,454,541)	(151,189,672)	(144,521,359)	(18)
Debt securities issued	(221,923,720)	(50,790,000)	(95,065,960)	(40,871,000)	(13,883,840)	(21,312,920)
Other financial liabilities	<u>(18,802,145)</u>	<u>(1,640,363)</u>	<u>(1,266,319)</u>	<u>(14,765,692)</u>	<u>-</u>	<u>(1,129,771)</u>
Total non-derivative financial liabilities	<u>(925,893,988)</u>	<u>(347,666,155)</u>	<u>(177,825,445)</u>	<u>(219,554,480)</u>	<u>(158,405,199)</u>	<u>(22,442,709)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of financial liabilities (Continued)

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from Central Bank	(48,857,141)	(37,717,747)	(11,139,394)	-	-	-
Deposits from banks and other financial institutions	(156,402,978)	(70,293,718)	(51,158,598)	(34,835,854)	(114,808)	-
Placements from banks and other financial institutions	(51,649,828)	(36,749,248)	(8,958,670)	(5,941,910)	-	-
Financial assets sold under repurchase agreements	(75,662,739)	(75,227,347)	(435,392)	-	-	-
Deposits from customers	(492,659,131)	(198,783,775)	(42,296,870)	(72,295,719)	(179,282,725)	(42)
Debt securities issued	(150,051,680)	(61,465,960)	(37,550,000)	(15,838,960)	(13,883,840)	(21,312,920)
Other financial liabilities	(19,490,410)	(659,930)	(1,167,050)	(17,663,430)	-	-
Total non-derivative financial liabilities	<u>(994,773,907)</u>	<u>(480,897,725)</u>	<u>(152,705,974)</u>	<u>(146,575,873)</u>	<u>(193,281,373)</u>	<u>(21,312,962)</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Currency swaps, foreign exchange forwards and precious metal derivatives.

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

	30 June 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	(95,324)	(38)	(97)	(15,009)	(80,180)	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
– cash outflow	(157,687,591)	(50,096,281)	(45,277,008)	(57,246,711)	(5,067,591)	-
– cash inflow	160,288,825	51,588,642	46,691,615	56,976,497	5,032,071	-
Precious metal derivatives						
– cash outflow	(15,176,877)	(685,607)	(550,720)	(13,940,550)	-	-
– cash inflow	14,762,938	659,278	544,060	13,559,600	-	-

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

Derivatives settled on a gross basis (Continued)

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	(5,910)	-	-	(3,135)	(2,775)	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(46,081,440)	(29,658,443)	(6,977,354)	(9,445,643)	-	-
- cash inflow	45,439,585	29,329,556	6,805,943	9,304,086	-	-
Precious metal derivatives						
- cash outflow	(18,718,536)	-	-	(18,718,536)	-	-
- cash inflow	19,124,940	-	-	19,124,940	-	-

(d) Operational risk

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

The Group has built “Three Lines of Defense for Risk Management” mainly involving business departments, the Compliance Department and the Internal Audit Department in risk management, and established a reporting mechanism between the Compliance Department and business departments, as well as between the head office and branches.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(e) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. Return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 30 June 2018 and 31 December 2017 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBIRC in 2012 and relevant requirements promulgated by the CBIRC as follows:

<i>Note</i>	30 June 2018	31 December 2017
Total core tier-one capital		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	6,110,162	5,352,502
– General reserve	12,571,840	11,034,031
– Fair value reserve	365,263	(335,375)
– Provision reserve	10,458	–
– Retained earnings	16,721,652	17,984,108
– Qualifying portions of non-controlling interests	34,407	31,285
– Others	(7,750)	(6,076)
Core tier-one capital	53,458,217	51,712,660
Core tier-one capital deductions	(108,150)	(108,088)
Net core tier-one capital	53,350,067	51,604,572
Other tier-one capital	–	–
Net tier-one capital	53,350,067	51,604,572

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

	<i>Note</i>	30 June 2018	31 December 2017
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		18,200,000	18,200,000
– Surplus provision for loan impairment		<u>4,408,584</u>	<u>3,574,801</u>
Net tier-two capital		<u>22,608,584</u>	<u>21,774,801</u>
Net capital base		<u>75,958,651</u>	<u>73,379,373</u>
Total risk weighted assets	37(e)(i)	<u>618,651,567</u>	<u>571,122,793</u>
Core tier-one capital adequacy ratio		8.62%	9.04%
Tier-one capital adequacy ratio		8.62%	9.04%
Capital adequacy ratio		<u>12.28%</u>	<u>12.85%</u>

Notes:

- (i) Both the on-balance and off-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 as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), the CBIRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.5 %, 8.5 % and 7.5 %, respectively, at 30 June 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

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

(i) *Debt securities investments*

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

(ii) *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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(a) Methods and assumptions for measurement of fair value (Continued)

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

Fair values of debt securities issued are based on their quoted market prices 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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2018			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– Currency derivatives	–	2,080,679	–	2,080,679
– Interest derivatives	–	129,971	–	129,971
– Precious metal derivatives	–	10,128	–	10,128
Financial assets held for sale				
– Debt instruments	–	1,505,351	–	1,505,351
Financial assets at fair value through profit or loss				
– Investment funds	534,871	–	–	534,871
– Others	–	–	85,516,068	85,516,068
Financial assets at fair value through other comprehensive income				
– Debt instruments	–	42,875,906	–	42,875,906
– Equity instruments	–	–	612,375	612,375
Total	<u>534,871</u>	<u>46,602,035</u>	<u>86,128,443</u>	<u>133,265,349</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
– Currency derivatives	–	(15,698,127)	–	(15,698,127)
Derivative financial liabilities				
– Currency derivatives	–	(1,212,225)	–	(1,212,225)
– Interest derivatives	–	(225,295)	–	(225,295)
– Precious metal derivatives	–	(443,380)	–	(443,380)
Total	<u>–</u>	<u>(17,579,027)</u>	<u>–</u>	<u>(17,579,027)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

During the period ended 30 June 2018, there were no significant transfers between instruments in Level 1 and Level 2.

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– Currency derivatives	–	302,667	–	302,667
– Interest derivatives	–	1,550	–	1,550
– Precious metal derivatives	–	125,169	–	125,169
Available-for-sale financial assets				
– Debt instruments	–	53,273,704	–	53,273,704
– Investment funds	<u>50,071,375</u>	<u>–</u>	<u>–</u>	<u>50,071,375</u>
Total	<u>50,071,375</u>	<u>53,703,090</u>	<u>–</u>	<u>103,774,465</u>
Liabilities				
Financial liabilities at fair value through profit or loss	–	(18,553,887)	–	(18,553,887)
Derivative financial liabilities				
– Currency derivatives	–	(1,142,050)	–	(1,142,050)
– Interest derivatives	–	(7,460)	–	(7,460)
– Precious metal derivatives	–	<u>(119,369)</u>	–	<u>(119,369)</u>
Total	<u>–</u>	<u>(19,822,766)</u>	<u>–</u>	<u>(19,822,766)</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters.

(d) Fair value of financial assets and liabilities not carried at fair value

(i) *Cash and deposits with Central Bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from Central Bank and financial investments classified as loans and receivables*

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) *Loans and advances to customers*

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

(iii) *Financial assets measured at amortised cost*

The fair values of financial assets measured at amortised cost are estimated on the basis of pricing models or discounted cash flows in the absence of any other relevant observable market data if the market value is not available.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

(iv) Held-to-maturity investments

The fair value for held-to-maturity investments is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

(v) Available-for-sale equity investments

Available-for-sale equity investments are unlisted shares. There is no active market for these investments and it is the Group’s intention to dispose of them as opportunities arise.

(vi) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(vii) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	30 June 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	352,485,136	333,163,972	–	193,186,669	139,977,303
Total	<u>352,485,136</u>	<u>333,163,972</u>	<u>–</u>	<u>193,186,669</u>	<u>139,977,303</u>
Financial liabilities					
Debt securities issued					
– Tier two capital bonds and financial bonds	25,200,000	24,929,684	–	24,929,684	–
– Certificates of interbank deposit	186,983,017	185,794,677	–	185,794,677	–
Total	<u>212,183,017</u>	<u>210,724,361</u>	<u>–</u>	<u>210,724,361</u>	<u>–</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

	Carrying amount	31 December 2017			
		Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	224,536,165	218,352,067	–	218,352,067	–
Total	224,536,165	218,352,067	–	218,352,067	–
Financial liabilities					
Debt securities issued					
– Tier two capital bonds and financial bonds	25,200,000	24,335,804	–	24,335,804	–
– Certificates of interbank deposit	115,720,240	114,346,961	–	114,346,961	–
Total	140,920,240	138,682,765	–	138,682,765	–

39 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of guarantees.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(a) Credit commitments (Continued)

	30 June 2018	31 December 2017
Bank acceptances	149,659,917	159,837,668
Letters of credit	6,520,834	6,384,633
Letters of guarantees	6,120,371	4,559,588
Unused credit card commitments	<u>2,849,036</u>	<u>2,246,054</u>
Total	<u><u>165,150,158</u></u>	<u><u>173,027,943</u></u>

Expected credit losses of credit commitments are set out in Note 31(c).

(b) Credit risk-weighted amount

	30 June 2018	31 December 2017
Credit risk-weighted amount of contingent liabilities and commitments	<u><u>91,131,127</u></u>	<u><u>95,485,164</u></u>

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the CBIRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Operating lease commitments

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

	30 June 2018	31 December 2017
Within one year (inclusive)	173,780	144,113
After one year but within five years (inclusive)	452,546	408,055
After five years	149,150	118,177
Total	<u>775,476</u>	<u>670,345</u>

(d) Capital commitments

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

	30 June 2018	31 December 2017
Contracted but not paid for	391,200	484,443
Approved but not contracted for	17,317	22,161
Total	<u>408,517</u>	<u>506,604</u>

(e) Outstanding litigations and disputes

As at 30 June 2018 and 31 December 2017, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(f) Pledged assets

	30 June 2018	31 December 2017
Investment securities	152,720,166	230,677,111
Discounted bills	19,186	–
Total	<u>152,739,352</u>	<u>230,677,111</u>

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

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

	30 June 2018		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	144,815,060	144,815,060	144,815,060
Investment management products under trust scheme	84,641,341	84,641,341	84,641,341
Wealth management products issued by financial institutions	12,568,910	12,568,910	12,568,910
Total	242,025,311	242,025,311	242,025,311

	31 December 2017		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	137,276,867	137,276,867	137,276,867
Investment management products under trust scheme	99,736,701	99,736,701	99,736,701
Wealth management products issued by financial institutions	2,500,000	2,500,000	2,500,000
Total	239,513,568	239,513,568	239,513,568

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

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

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 notes to investors. Interest held by the Group includes fees charged by providing management services.

During the six months ended 30 June 2018, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB160.49 million (the six months ended 30 June 2017: RMB253.21 million).

As at 30 June 2018, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB43,973 million (31 December 2017: RMB43,702 million).

During the six months ended 30 June 2018, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018, but matured before 30 June 2018, is RMB13,104 million (the six months ended 30 June 2017: RMB20,327 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

41 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

As at 30 June 2018, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB5,562 million (31 December 2017: RMB3,165 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management products on the Group's financial performance is not significant.

42 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 30 June 2018, the entrusted loans balance of the Group is RMB3,677 million (31 December 2017: RMB6,680 million).

43 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Financial fixed rate bonds of RMB12 billion with a term of three years were issued on 15 August 2018. The coupon rate is 4.35% per annum.

Except for the above, the Group has no material events for disclosure subsequent to 30 June 2018 and up to the date of this report.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(a) Liquidity coverage ratio

	As at 30 June 2018	Average for the period ended 30 June 2018	As at 31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	<u>129.87%</u>	<u>132.36%</u>	<u>134.85%</u>	<u>157.38%</u>

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Bank Insurance Regulatory Commission (the “CBIRC”) and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”).

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.

The Hong Kong Banking (Disclosure) Rules (the “Rules”) took effect on 1 January 2007. It requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. The Group prepares the liquidity coverage ratio on a semi-annual basis and the disclosed average liquidity coverage ratio is the arithmetic mean of two consecutive liquidity coverage ratio as at 30 June and 31 December.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (CONTINUED)

(b) Leverage ratio

	30 June 2018	31 December 2017
Leverage ratio	4.84%	4.31%

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

The above liquidity coverage ratio and leverage ratio is calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF.

2 CURRENCY CONCENTRATIONS

	30 June 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	9,854,924	1,023,081	1,153,799	12,031,804
Spot liabilities	(38,127,454)	(1,002,963)	(1,156,374)	(40,286,791)
Net long position	(28,272,530)	20,118	(2,575)	(28,254,987)

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	19,880,272	693,154	705,456	21,278,882
Spot liabilities	(46,387,996)	(668,631)	(702,148)	(47,758,775)
Net long position	(26,507,724)	24,523	3,308	(26,479,893)

The Group has no structural position at the reporting periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with Central Bank, deposits and placements with banks and other financial institutions, and investments in debt securities.

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.

	30 June 2018			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	161,314	5,174,571	5,410,195	10,746,080
North and South America	–	854,022	–	854,022
Europe	–	21,910	–	21,910
Total	161,314	6,050,503	5,410,195	11,622,012

	31 December 2017			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	755,321	17,196,026	2,691,578	20,642,925
North and South America	–	432,957	–	432,957
Europe	–	25,154	–	25,154
Total	755,321	17,654,137	2,691,578	21,101,036

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	30 June 2018	31 December 2017
Northeast China	12,184,518	4,856,265
North China	7,430,832	380,701
Others	1,276,532	75,288
Total	20,891,882	5,312,254

5 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES FOR MORE THAN 90 DAYS

	30 June 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	654,169	92,486
– between 6 months and 1 year (inclusive)	437,551	543,598
– over 1 year	3,600,180	3,432,012
Total	4,691,900	4,068,096
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.20%	0.03%
– between 6 months and 1 year (inclusive)	0.13%	0.20%
– over 1 year	1.08%	1.23%
Total	1.41%	1.46%

DEFINITION

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBIRC Liaoning Bureau”	China Banking and Insurance Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITION (CONTINUED)

“Latest Practicable Date”	31 August 2018, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC “PBOC” or
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Reporting Period”	the six months ended 30 June 2018
“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Shenyang Hengxin”	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on 10 April 2002
“Supervisor(s)”	the supervisor(s) of the Bank



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☎ (024)95337 / 400-699-6666

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