中国光大银行
CHINA EVERBRIGHT BANK

打 造 一 流 財 富 管 理 銀 行

2018 中期報告
INTERIM REPORT

China Everbright Bank Company Limited

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

Stock Code : 6818

Contents

Important Notice and Definitions

I. Important Notice

i. The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this report.

ii. The 27th Meeting of the Seventh Session of the Board of Directors of the Bank was convened by written resolutions on 28 August 2018, at which the 2018 Interim Report of the Bank was considered and approved. 13 out of 13 Directors attended and voted at the meeting in person.

iii. The financial statements of the Bank for the first half of 2018 were prepared in accordance with the China Accounting Standards and the International Financial Reporting Standards ("IFRSs") and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively.

iv. Unless otherwise stated, all monetary sums stated in this report are expressed in Renminbi/RMB.

v. The Bank will not implement any profit distribution or capitalization of capital reserves for the first half of 2018.

vi. Forward-looking statements such as future plans of the Bank mentioned in this report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.

vii. The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to the "Discussion and Analysis of Operations" for details.

viii. In this report, "the Bank", "Whole Bank" and "China Everbright Bank" all refer to China Everbright Bank Company Limited, and "the Group" refers to China Everbright Bank Company Limited and its subsidiaries.

II. Definitions

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

Ministry of Finance	:	Ministry of Finance of the People's Republic of China
Central Bank	:	The People's Bank of China
CBIRC	:	China Banking and Insurance Regulatory Commission
Former CBRC	:	China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
Everbright Group	:	China Everbright Group Limited
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited
EY Hua Ming	:	Ernst & Young Hua Ming LLP
EY	:	Ernst & Young

Corporate Information

I. Name of the Bank

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

II. Relevant Persons

Legal Representative: Li Xiaopeng
Authorized Representatives: Li Xiaopeng, Li Jiayan
Secretary to the Board of Directors: Li Jiayan
Securities Affairs Representative: Li Jiayan
Assistant to Company Secretary: Lee Mei Yi

III. Contacts

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

IV. Corporate Information

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

V. Principal Place of Business in Hong Kong

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

VI. Newspaper and Website Designated for Information Disclosure

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

VII. Stock Exchanges for Listing of Shares

A share: Shanghai Stock Exchange (SSE)
Abbreviated name of Ordinary Shares: Everbright Bank;
Code: 601818
Abbreviated name of Preference Shares: 光大優1; 光大優2;
Code: 360013, 360022 (SSE Comprehensive Business Platform)
Abbreviated name of convertible bonds: Everbright Convertible Bonds;
Code: 113011
H share: Hong Kong Exchanges and Clearing Limited (HKEX)
Abbreviated name: CEB Bank
Code: 6818

VIII. Auditors during the Reporting Period

Domestic Auditor: Ernst & Young Hua Ming LLP
Certified Public Accountants for Signature: Gu Jun, Leung Shing Kit
Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing
Overseas Auditor: Ernst & Young
Certified Public Accountant for Signature: Kam Cheong Geoffrey
Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

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

A Share Legal Advisor: Jun He Law Offices
H Share Legal Advisor: Herbert Smith Freehills

X. Share Depository

A Share Ordinary Shares, Preference Shares and Convertible Bonds Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited
Office Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New District, Shanghai
H Share Registrar: Computershare Hong Kong Investor Services Limited
Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Summary of Accounting Data and Financial Indicators

I. Key Financial Data and Indicators

Item	January – June, 2018	January – June, 2017	Change (%)	January – June, 2016
Operating performance (RMB million)				
Net interest income	27,339	30,383	-10.02	32,625
Net fee and commission income	18,376	15,992	14.91	13,898
Operating income	52,303	46,385	12.76	47,081
Operating expenses	(16,075)	(14,351)	12.01	(15,413)
Impairment losses on assets	(14,568)	(10,030)	45.24	(9,956)
Profit before tax	21,660	22,004	-1.56	21,712
Net profit	18,101	16,972	6.65	16,468
Net profit attributable to equity shareholders of the Bank	18,075	16,939	6.71	16,439
Per share (in RMB)				
Basic earnings per share[1]	0.32	0.34	-5.88	0.33
Diluted earnings per share[2]	0.29	0.32	-9.38	0.33
Item	**30 June 2018**	**31 December 2017**	**Change (%)**	**31 December 2016**
Net assets per share attributable to ordinary shareholders of the Bank[3]	5.22	5.24	-0.38	4.72
Scale indicators (RMB million)				
Total assets	4,283,277	4,088,243	4.77	4,020,042
Total loans and advances to customers	2,232,682	2,032,056	9.87	1,795,278
Provision for impairment of loans and advances to customers[4]	58,035	51,238	13.27	43,634
Total liabilities	3,978,412	3,782,807	5.17	3,768,974
Balance of deposits from customers	2,435,534	2,272,665	7.17	2,120,887
Total equity	304,865	305,436	-0.19	251,068
Total equity attributable to equity shareholders of the Bank	304,179	304,760	-0.19	250,455
Sharet capital	52,489	52,489	–	46,679
Item	**January – June, 2018**	**January – June, 2017**	**Change (%)**	**January – June, 2016**
Profitability indicators (%)				
Return on average total assets	0.87	0.84	+0.03 percentage point	0.95
Return on weighted average net assets[5]	12.36	13.76	-1.40 percentage points	14.55
Net interest spread	1.39	1.32	+0.07 percentage point	1.68
Net interest margin	1.63	1.52	+0.11 percentage point	1.88
Proportion of fee and commission income in operating income	35.13	34.48	+0.65 percentage point	29.52
Cost-to-income ratio	29.66	29.77	-0.11 percentage point	27.49

Item	30 June 2018	31 December 2017	Change (%)	31 December 2016
Asset quality indicators (%)				
Non-performing loan ratio	1.51	1.59	-0.08 percentage point	1.60
Provision coverage ratio[6]	173.04	158.18	+14.86 percentage points	152.02
Provision-to-loan ratio[7]	2.62	2.52	+0.10 percentage point	2.43

Notes:

1. Basic earnings per share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank=net profit attributable to equity shareholders of the Bank – dividends of the preference shares distributed during the period.

2. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).

3. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instruments)/total number of ordinary shares at the end of the period.

4. It only includes provision for impairment of loans and advances to customers measured at amortized cost.

5. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank.

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

6. Provision coverage ratio = (provision for impairment of loans and advances to customers measured at amortized cost + provision for impairment of loans and advances to customers at fair value through other comprehensive income)/balance of impaired loans and advances to customers.

7. Provision-to-loan ratio = (provision for impairment of loans and advances to customers measured at amortized cost + provision for impairment of loans and advances to customers at fair value through other comprehensive income)/total loans and advances to customers.

The Bank distributed the dividends for the first tranche of preference shares (Everbright P1) under the issuance in RMB1,060 million (before tax) on 25 June 2018.

II. Supplementary Financial Indicators

Unit: %

Item		Standard value	30 June 2018	31 December 2017	31 December 2016
Liquidity ratio	RMB	≥25	56.03	59.93	63.18
	Foreign currency	≥25	77.93	62.45	78.81
Loan exposure to largest single customer ratio		≤10	1.44	1.29	2.37
Loan exposure to top ten customers ratio		≤50	10.12	10.00	14.62

Note: Liquidity ratio indicators were calculated on non-consolidation basis.

III. Capital Composition and Changes

The capital adequacy ratio (CAR) indicators calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (Decree No.1 of the CBRC in 2012) are as follows:

Unit: RMB million, %

Item		30 June 2018		31 December 2017	
		Consolidated[1]	Non-consolidated	Consolidated	Non-consolidated
1.	Net capital base[2]	390,327	382,345	385,524	377,381
1.1	Common equity tier-1 capital	274,760	271,960	275,302	272,412
1.2	Common equity tier-1 capital deductions	(2,253)	(6,654)	(2,276)	(6,675)
1.3	Net common equity tier-1 capital[2]	272,507	265,306	273,026	265,737
1.4	Additional tier-1 capital	30,018	29,947	30,012	29,947
1.5	Additional tier-1 capital deductions	–	–	–	–
1.6	Net tier-1 capital[2]	302,525	295,253	303,038	295,684
1.7	Tier-2 capital	87,802	87,092	82,486	81,697
1.8	Tier-2 capital deductions	–	–	–	–
2.	Credit risk-weighted assets	2,884,731	2,822,136	2,669,951	2,611,528
3.	Market risk-weighted assets	19,922	19,525	12,210	13,074
4.	Operational risk-weighted assets	174,639	172,143	174,639	172,143
5.	Total risk-weighted assets	3,079,292	3,013,804	2,856,800	2,796,745
6.	Common equity tier-1 CAR	8.85	8.80	9.56	9.50
7.	Tier-1 CAR	9.82	9.80	10.61	10.57
8.	CAR	12.68	12.69	13.49	13.49

Notes:

1. All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Capital Rules for Commercial Banks (Provisional)*, shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Rural Bank Co., Ltd., Jiangsu Huai'an Everbright Rural Bank Co., Ltd., CEB International Investment Corporation Limited, and China Everbright Bank (Europe) S.A..

2. Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

IV. Leverage Ratio

The leverage ratio indicators calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (Decree No.1 of the CBRC in 2015) are as follows:

Unit: RMB million, %

Item	30 June 2018	31 March 2018	31 December 2017	30 September 2017
Leverage ratio	6.16	6.34	6.45	5.89
Net tier-1 capital	302,525	304,269	303,038	272,072
Adjusted balance of on-and-off balance sheet assets	4,908,768	4,801,440	4,698,240	4,621,816

V. Liquidity Coverage Ratio

The liquidity coverage ratio indicators calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks (Provisional)* (Decree No.3 of China Banking and Insurance Regulatory Commission (the CBIRC) in 2018) are as follows:

Unit: RMB million, %

Item	30 June 2018	31 March 2018	31 December 2017	30 September 2017
Liquidity coverage ratio	115.77	99.68	101.96	99.27
High quality liquid assets	340,983	284,312	250,014	292,264
Net cash outflow in the next 30 days	294,535	285,211	245,201	294,415

Business Overview of the Bank

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

During the reporting period, the Bank followed the overall principle of seeking progress while ensuring stability, focused its efforts on carrying on three major tasks, that is, "serving real economy, preventing and controlling financial risk, and deepening financial reform", acted on the requirements for quality development, reinforced the management foundation, moved faster to transform operational mode, and sought to sharpen competitiveness among market peers.

(I) The Bank drafted the new version of strategic plan aiming to build a leading wealth management bank.

In its *Mid-to-long-term Development Strategy (2018-2027)*, the Bank made clear its strategic vision of "building a leading wealth management bank". To this end, it would focus on developing itself into a commercial bank defined by its aspirations, quality, uniqueness, innovation, principle, reputation, vigor and responsibility. At the same time, it would promote its corporate banking, retail banking and asset management business segments for coordinated development through transforming itself towards comprehensive, featured, light-asset and digitalized operations.

(II) The Bank enhanced its operating benefits on all fronts, and continued to sharpen its comprehensive competitiveness.

The Bank kept strengthening asset and liability management, and exercised stricter control over pricing, thus improving interest spreads and raising operating profitability in a well-rounded way. At the same time, it introduced more diversified income sources, promoted such business lines as credit card, trade finance, and e-banking towards stable growth, and continuously drove up the proportion of fee-based business income. Besides, it took an active part in optimizing business structure, developing green finance, enhancing service capacity of inclusive finance, and supporting the development of real economy. As a result of these efforts, the Bank enhanced its comprehensive competitiveness steadily.

(III) The Bank intensified risk management, and firmly defended the bottom line of risks.

Staying true to operational compliance, the Bank cracked down on market misconducts that disrupted the normal market order with comprehensive and solid efforts, exercised rigid control over risks arising from cross financial products, and forestalled judicial risks resolutely. While firmly defending the bottom line of asset quality, it optimized loan structure, and worked hard to recover non-performing loans (NPLs), thus pulling down the ratio of loans overdue or in arrears steadily. Additionally, the Bank also set aside more provision as a means of mitigating related risks better, strictly defended the bottom line of secure operation, conducted intensified control over technological security, and lifted operational management to a higher level.

(IV) The Bank promoted the development of financial technology (FinTech), and gathered pace in digitalized transformation.

The Cloud Fee Payment Business Center was set up so as to promote the business development with a market-based mechanism. Hence, such key business lines as Cloud Fee Payment grew fast, forming the distinctive and leading advantages of the Bank. In the meantime, the Bank developed the big data-based risk control model with all efforts, and finished setting up the framework for the technical platform of the anti-fraud model. It also specified the strategy of "seeking for mobile first by putting a bank into a single cellphone", and introduced the new version of mobile banking. Besides, the Bank cemented its ties with large internet companies in all respects. Based on the existing business cooperation, they would extend their partnerships to such fields as big data, cloud computing and internet payment.

(V) The Bank improved customer experience in an all-round manner, and enhanced service competitiveness rapidly.

Firmly practicing the quality development philosophy of “centering on customers, creating more value for them”, the Bank was devoted to optimizing and reshaping business flows, improving product design, restructuring service mode, introducing intelligent counters, promoting outlet transformation, and integrating online and offline services. Striving to achieve the goal of “outstanding products, targeted customer acquisition, refined management, and meticulous service”, it launched a service quality improvement drive that covered all outlets, channels, flows and staff members.

II. Analysis on Core Competitiveness of the Bank

Firstly, distinguished background of shareholders engaged in diversified operation and coordinated development of finance and other industries with a full range of financial licenses: China Everbright Group is a large financial holding group directly under the administration of central government, and also one of the Fortune 500 companies across the world. It runs a diversity of financial business forms, and possesses a full range of financial licenses. Also setting foot in industrial sectors, the Group offers the Bank a platform to provide a full package of financial services and promote the coordinated development of finance and other industries.

Secondly, unified Sunshine brand: Upholding the business philosophy of “Sharing Sunshine and Innovating Lifestyle” for many years, the Bank has stepped up its brand building efforts to create the “Sunshine” brand series. Sunshine wealth management has become the most influential brand of its kind across the Chinese market. Such products as Sunshine Debit Card, Sunshine Bank, Sunshine E-banking, Sunshine Premium Housekeeper, and Sunshine Service all have distinctive features, gain fairly great reputation, and demonstrate considerable brand competitiveness.

Thirdly, outstanding innovative DNA: The Bank was established against the background of a competitive financial market just emerged in China, and it grew stronger in the pursuit of exploration and innovation. Inspired by the great awareness of making innovation, it gained sound innovative achievements. Thanks to its innovative efforts, it became the first bank that launched the RMB wealth management product, the first one licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it also forged the largest open-ended payment platform named “Cloud Fee Payment” nationwide.

Fourthly, prudent and efficient system-based advantage for comprehensive risk management: Sticking to the principle of “full-round, whole-process, bank-wide operation”, the Bank keeps improving risk management mechanism, proactively pushes forward the implementation and application of the New Basel Capital Accord, and has established a fairly refined and comprehensive risk management system which is adapted to the Bank’s business plans and characteristics. The Bank is running a prudent and highly efficient risk management mechanism.

Fifthly, advanced IT management and independent R&D capabilities: As the first commercial bank to realize the “data centralization”, the Bank has reached an advanced level regarding safe operation and maintenance as well as technological support capabilities in China. In recent years, it has also set up a platform to enhance its independent R&D capability.

Discussion and Analysis of Operations

I. Overall Operations of the Bank

(I) Assets and liabilities realized steady growth, and structural adjustments advanced continuously

As at the end of the reporting period, the total assets of the Group posted RMB4,283,277 million, representing an increase of RMB195,034 million or 4.77% as compared with those at the end of the previous year. The total loans stood at RMB2,232,682 million, representing an increase of RMB200,626 million or 9.87% as compared with those at the end of the previous year. The total loans accounted for 52.13% of the total assets, representing an increase of 2.43 percentage points over the end of the previous year. The balance of deposits reached RMB2,435,534 million, representing an increase of RMB162,869 million or 7.17% over the end of the previous year. The total deposits accounted for 61.22% of the total liabilities, up by 1.14 percentage points as compared with the end of the previous year.

(II) Income recorded fast growth, and profitability kept improving

During the reporting period, the operating income of the Group registered RMB52,303 million, representing a year-on-year increase of RMB5,918 million or 12.76%. Of it, the net fee and commission income posted RMB18,376 million, representing an increase of RMB2,384 million or 14.91% year on year. The proportion of net fee and commission income to operating income reached 35.13%, representing a year-on-year increase of 0.65 percentage point, signaling a further improved income structure. Net profit of the Group reached RMB18,101 million, representing an increase of RMB1,129 million or 6.65% as compared to the same period of last year.

(III) Asset quality remained stable, and risk resistance got intensified

As at the end of the reporting period, the Group's non-performing loans (NPLs) amounted to RMB33,790 million, representing an increase of RMB1,398 million over the end of the previous year. NPL ratio reported 1.51%, down by 0.08 percentage point as compared with the end of the previous year. Provision coverage ratio reached 173.04%, up by 14.86 percentage points over the end of the previous year.

(IV) Capital adequacy ratio (CAR) maintained a fairly high level, and conformed to regulatory requirements continuously

As at the end of the reporting period, CAR of the Group was 12.68%, tier-1 CAR was 9.82%, and common equity tier-1 CAR was 8.85%, all of which operated at a comparatively high level and met regulatory requirements consistently.

II. Income Statement Analysis

(I) Changes in items of Income Statement

Unit: RMB million

Item	January – June, 2018	January – June, 2017	Change
Net interest income	27,339	30,383	(3,044)
Net fee and commission income	18,376	15,992	2,384
Net trading gains/(losses)	2,284	(1,330)	3,614
Dividend income	8	–	8
Net gains/(losses) arising from investment securities	6,250	(76)	6,326
Net foreign exchange (losses)/gains	(2,235)	1,140	(3,375)
Other operating income	281	276	5
Operating expenses	16,075	14,351	1,724
Impairment losses on assets	14,568	10,030	4,538
Profit before tax	21,660	22,004	(344)
Income tax	3,559	5,032	(1,473)
Net profit	18,101	16,972	1,129
Net profit attributable to equity shareholders of the Bank	18,075	16,939	1,136

(II) Operating income

During the reporting period, the Group incurred an operating income of RMB52,303 million, representing a year-on-year increase of RMB5,918 million or 12.76%. The proportion of net interest income to the total operating income was 52.27%, representing a year-on-year decrease of 13.23 percentage points. The proportion of net fee and commission income to the total operating income reported 35.13%, up by 0.65 percentage point year on year.

Unit: %

Item	January – June, 2018	January – June, 2017
Net interest income	52.27	65.50
Net fee and commission income	35.13	34.48
Other income	12.60	0.02
Total operating income	100.00	100.00

Discussion and Analysis of Operations

(III) Net interest income

During the reporting period, the Group's net interest income stood at RMB27,339 million. In 2018, the Group adopts the International Financial Reporting Standards 9 (IFRS 9) officially. According to IFRS 9, the operating income generated from monetary funds, bond funds which were previously recognized in "interest income" were included in other income such as "net gains/(losses) arising from investment securities". Calculated according to the standards applied in the last year, by adding back those income to the interest income, the net interest income posted RMB33,678 million, representing a year-on-year increase of RMB3,295 million or 10.84%.

By the comparable standards of the previous year, the Group's net interest spread reported 1.39%, representing a year-on-year increase of 7 basis points. Its net interest margin was 1.63%, up by 11 basis points year on year, mainly due to the optimized asset and liability structure and the recovering interest margin of interbank business.

Unit: RMB million, %

Item	January – June, 2018			January – 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	2,132,556	48,606	4.60	1,901,521	41,644	4.42
Finance lease receivables	59,454	1,530	5.19	59,454	1,326	4.50
Investments	1,059,684	22,962	4.37	1,340,057	26,883	4.05
Deposits with the central bank	350,668	2,589	1.49	358,869	2,627	1.48
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	302,336	5,407	3.61	384,108	6,219	3.26
Total interest-earning assets	3,904,698	81,094	4.19	4,044,009	78,699	3.92
Interest income		81,094			78,699	
Interest-bearing liabilities						
Deposits from customers	2,321,485	24,227	2.10	2,169,561	20,216	1.88
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	1,060,452	19,820	3.77	1,047,335	18,118	3.49
Debt securities issued	431,826	9,708	4.53	529,118	9,982	3.80
Total interest-bearing liabilities	3,813,763	53,755	2.84	3,746,014	48,316	2.60
Interest expenses		53,755			48,316	
Net interest income		27,339			30,383	
Net interest spread			1.39			1.32
Net interest margin			1.63			1.52

Note: While calculating the net interest spread and net interest margin, the average balance and interest income of such business lines as fund investments were added back for recovery by the comparable standards of the previous year.

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

Unit: RMB million

Item	Volume factor	Interest rate factor	Changes in interest
Loans and advances to customers	5,266	1,696	6,962
Finance lease receivables	–	204	204
Investments	(6,075)	2,154	(3,921)
Deposits with the central bank	(61)	23	(38)
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(1,462)	650	(812)
Interest-earning assets	(2,893)	5,288	2,395
Changes in interest income			2,395
Deposits from customers	1,585	2,426	4,011
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	245	1,457	1,702
Debt securities issued	(2,187)	1,913	(274)
Interest-bearing liabilities	955	4,484	5,439
Changes in interest expense			5,439
Net interest income			(3,044)

(IV) Interest income

During the reporting period, the Group yielded an interest income of RMB81,094 million, representing a year-on-year increase of RMB2,395 million or 3.04%. Such increase was mainly attributable to the growing interest income from loans and advances to customers.

1. Interest income from loans and advances to customers

During the reporting period, the Group's interest income from loans and advances to customers was RMB48,606 million, representing a year-on-year increase of RMB6,962 million or 16.72%.

Unit: RMB million, %

Item	January – June, 2018			January – June, 2017		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,234,066	28,915	4.72	1,154,698	25,702	4.49
Personal loans	874,122	19,088	4.40	707,907	15,339	4.37
Discounted bills	24,368	603	4.99	38,916	603	3.12
Loans and advances	2,132,556	48,606	4.60	1,901,521	41,644	4.42

2. Interest income from investments

During the reporting period, the Group's interest income from investments stood at RMB22,962 million, a decrease of RMB3,921 million or 14.59% year on year. The decline was mainly because the Group adopted IFRS 9 officially in 2018 and the income from money funds, bond funds and other business lines was moved from the original item of "interest income" to the item of other income such as "net gains/(losses) arising from investment securities" for accounting purpose.

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

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements totaled RMB5,407 million, representing a year-on-year decrease of RMB812 million or 13.06%.

(V) Interest expense

During the reporting period, the Group's interest expense amounted to RMB53,755 million, representing a year-on-year increase of RMB5,439 million or 11.26%. Such increase was mainly due to the growing interest expense incurred by deposits from customers, placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements.

1. Interest expense on deposits from customers

During the reporting period, the Group incurred RMB24,227 million in interest expense on deposits from customers, representing a year-on-year increase of RMB4,011 million or 19.84%.

Unit: RMB million, %

	January – June, 2018			January – June, 2017		
Item	Average balance	Interest expenses	Average cost	Average balance	Interest expenses	Average cost
Corporate deposits	1,828,682	18,855	2.08	1,722,297	16,157	1.89
Including: Corporate demand deposits	702,786	2,576	0.74	662,148	2,230	0.68
Corporate time deposits	1,125,896	16,279	2.92	1,060,149	13,927	2.65
Personal deposits	492,803	5,372	2.20	447,264	4,059	1.83
Including: Personal demand deposits	173,034	345	0.40	161,604	328	0.41
Personal time deposits	319,769	5,027	3.17	285,660	3,731	2.63
Total deposits from customers	2,321,485	24,227	2.10	2,169,561	20,216	1.88

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

During the reporting period, the Group's interest expense on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB19,820 million, up by RMB1,702 million or 9.39% year on year. The increase was mainly attributed to the growth in the cost of placements and deposits from banks and other financial institutions as well as financial assets sold under repurchase agreements.

3. Interest expense on debt securities issued

During the reporting period, the Group's interest expense on debt securities issued was RMB9,708 million, representing a year-on-year decrease of RMB274 million or 2.74%. The decrease was mainly due to the year-on-year decrease of the average balance of debt securities issued.

(VI) Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB18,376 million, representing a year-on-year increase of RMB2,384 million or 14.91%. Such rise was mainly due to the notable increase in bank card service fees. Bank card service fees grew by RMB3,899 million or 41.39% year on year.

Unit: RMB million

Item	January – June, 2018	January – June, 2017
Fee and commission income	19,680	16,948
Underwriting and advisory fees	861	903
Bank card service fees	13,319	9,420
Settlement and clearing fees	815	686
Wealth management service fees	502	2,256
Acceptance and guarantee fees	633	481
Agency services fees	1,706	1,561
Custody and other fiduciary business fees	771	964
Others	1,073	677
Fee and commission expense	(1,304)	(956)
Net fee and commission income	18,376	15,992

(VII) Other income

During the reporting period, the Group's other income stood at RMB6,588 million, representing a year-on-year increase of RMB6,578 million. The rise was mainly because the Group adopted IFRS 9 officially in 2018 and the income from money funds, bond funds and other business lines was moved from the original item of "interest income" to the item of other income like "net gains/(losses) arising from investment securities" for accounting purpose.

Unit: RMB million

Item	January – June, 2018	January – June, 2017
Net trading gains/(losses)	2,284	(1,330)
Dividend income	8	–
Net gains/(losses) arising from investment securities	6,250	(76)
Net foreign exchange (losses)/gains	(2,235)	1,140
Other operating income	281	276
Total	6,588	10

Discussion and Analysis of Operations

(VIII) Operating expenses

During the reporting period, the Group incurred an operating expenses of RMB16,075 million, an increase of RMB1,724 million or 12.01% year on year. Cost-to-income ratio stood at 29.66%, down by 0.11 percentage point year on year.

Unit: RMB million

Item	January – June, 2018	January – June, 2017
Staff costs	9,445	8,332
Premises and equipment expenses	2,418	2,370
Tax and surcharges	561	543
Others	3,651	3,106
Total operation expenses	16,075	14,351

(IX) Impairment losses on assets

During the reporting period, the Group pursued the objective and prudent provision policy, continued to consolidate the provision foundation, and increased risk resistance. It sustained the impairment losses on assets of RMB14,568 million, representing a year-on-year increase of RMB4,538 million or 45.24%.

Unit: RMB million

Item	January – June, 2018	January – June, 2017
Impairment losses on loans and advances to customers	14,351	9,305
Loans and advances to customers measured at amortized cost	14,759	9,305
Loans and advances to customers at fair value through other comprehensive income	(408)	–
Impairment losses on finance lease receivables	(2)	59
Impairment on debt instruments at fair value through other comprehensive income	58	–
Impairment on financial investments measured at amortized cost	(106)	–
Impairment losses on held-to-maturity investments	–	(10)
Impairment losses on available-for-sale financial assets	–	190
Impairment losses on debt securities classified as receivables	–	361
Others	267	125
Total impairment losses on assets	14,568	10,030

(X) Income tax

During the reporting period, the Group incurred an income tax of RMB3,559 million, a decrease of RMB1,473 million or 29.27% year on year.

III. Balance Sheet Analysis

(I) Assets

As at the end of the reporting period, the Group's total assets reached RMB4,283,277 million, representing an increase of RMB195,034 million or 4.77% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	2,232,682		2,032,056	
Provision for impairment of loans[1]	(58,035)		(51,238)	
Net loans and advances to customers	2,174,647	50.77	1,980,818	48.45
Finance lease receivables	61,052	1.43	56,364	1.38
Deposits with banks and other financial institutions	24,024	0.56	44,754	1.09
Cash and deposits with the central bank	376,711	8.80	353,703	8.65
Precious metals	27,722	0.65	40,352	0.99
Investment in securities and other financial assets	1,315,179	30.70	1,302,449	31.86
Placements with banks and other financial institutions, and financial assets held under resale agreements	214,254	5.00	240,257	5.88
Interests receivable	29,506	0.69	28,576	0.70
Fixed assets	15,068	0.35	14,929	0.37
Goodwill	1,281	0.03	1,281	0.03
Deferred tax assets	9,963	0.23	7,596	0.19
Other assets	33,870	0.79	17,164	0.41
Total assets	4,283,277	100.00	4,088,243	100.00

Note: 1. It only includes provision for impairment of loans and advances to customers measured at amortized cost.

1. Loans and advances to customers

As at the end of the reporting period, the Group's total loans and advances to customers were RMB2,232,682 million, an increase of RMB200,626 million or 9.87%, as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 50.77%, representing an increase of 2.32 percentage points as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,275,189	57.11	1,179,663	58.05
Personal loans	934,165	41.84	830,004	40.85
Discounted bills	23,328	1.05	22,389	1.10
Gross loans and advances	2,232,682	100.00	2,032,056	100.00

2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investment in securities and other financial assets totaled RMB1,315,179 million, an increase of RMB12,730 million as compared with the end of the previous year, accounting for 30.70% of total assets, and representing a decrease of 1.16 percentage points as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	258,970	19.69	24,196	1.86
Debt instruments at fair value through other comprehensive income	145,529	11.06	–	–
Equity instruments at fair value through other comprehensive income	112	0.01	–	–
Financial investments measured at amortized cost	900,373	68.46	–	–
Derivative financial assets	10,195	0.78	4,513	0.35
Available-for-sale financial assets	–	–	414,547	31.83
Held-to-maturity investments	–	–	344,617	26.46
Debt securities classified as receivables	–	–	514,576	39.50
Total investment in securities and other financial assets	1,315,179	100.00	1,302,449	100.00

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB177,730 million, up by RMB83,941 million over the end of the previous year. Of these, the financial bonds measured at the amortized cost occupied a proportion of 80.09% in the total.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	10,402	5.85	911	0.97
Debt instruments at fair value through other comprehensive income	24,993	14.06	–	–
Financial investments measured at amortized cost	142,335	80.09	–	–
Available-for-sale financial assets	–	–	19,663	20.97
Held-to-maturity investments	–	–	73,215	78.06
Total financial bonds held	177,730	100.00	93,789	100.00

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bonds	Nominal value	Annual interest rate	Maturity date	Provision for impairment losses
Bond 1	9,670	4.98	2025-01-12	–
Bond 2	7,210	4.39	2027-09-08	–
Bond 3	5,140	3.80	2036-01-25	–
Bond 4	4,500	4.01	2037-01-09	–
Bond 5	4,430	3.83	2024-01-06	–
Bond 6	3,560	4.73	2025-04-02	–
Bond 7	2,880	3.85	2024-01-09	–
Bond 8	2,790	3.43	2021-12-08	–
Bond 9	2,500	4.20	2020-04-17	–
Bond 10	2,420	4.89	2028-03-26	–

5. Goodwill

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

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

(II) Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB3,978,412 million, representing an increase of RMB195,605 million or 5.17% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Due to the central bank	252,000	6.33	232,500	6.15
Deposits from customers	2,435,534	61.22	2,272,665	60.08
Deposits from banks and other financial institutions	605,333	15.22	577,447	15.27
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	193,711	4.87	152,379	4.03
Financial liabilities at fair value through profit or loss	16	–	–	–
Derivative financial liabilities	9,851	0.25	6,552	0.17
Accrued staff costs	8,595	0.22	8,412	0.22
Taxes payable	3,644	0.09	4,932	0.13
Interests payable	38,971	0.98	40,206	1.06
Debt securities issued	377,995	9.50	445,396	11.77
Other liabilities	52,762	1.32	42,318	1.12
Total liabilities	3,978,412	100.00	3,782,807	100.00

Discussion and Analysis of Operations

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,435,534 million, representing an increase of RMB162,869 million or 7.17%, as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate deposits	1,887,628	77.51	1,797,159	79.08
Including: Corporate demand deposits	746,045	30.63	740,220	32.57
Corporate time deposits	1,141,583	46.88	1,056,939	46.51
Personal deposits	448,441	18.41	384,135	16.90
Including: Personal demand deposits	200,017	8.21	179,176	7.88
Personal time deposits	248,424	10.20	204,959	9.02
Other deposits	99,465	4.08	91,371	4.02
Total deposits from customers	2,435,534	100.00	2,272,665	100.00

(III) Equity of shareholders

As at the end of the reporting period, the equity attributable to shareholders of the Group amounted to RMB304,179 million, representing a decrease of RMB581 million or 0.19% as compared with the end of the previous year. The decline was mainly due to dividend distribution, switch to new accounting standards for financial instruments, profit realized in the current period, and other factors.

Unit: RMB million

Item	30 June 2018	31 December 2017
Share capital	52,489	52,489
Other equity instrument	35,108	35,108
Capital reserve	53,533	53,533
Other comprehensive income	(460)	(1,845)
Surplus reserve	21,054	21,054
General reserve	52,258	52,257
Retained earnings	90,197	92,164
Total equity attributable to equity shareholders of the Bank	304,179	304,760
Non-controlling interests	686	676
Total equity	304,865	305,436

(IV) Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB869,795 million, representing an increase of RMB69,183 million as compared with that as at the end of the previous year.

Unit: RMB million

Item	30 June 2018	31 December 2017
Loan and credit card commitments	237,768	215,246
Bank's acceptance bills	412,183	403,717
Letters of guarantee	115,048	103,295
Letters of credit	104,611	78,169
Guarantees	185	185
Total	869,795	800,612

IV. Cash Flow Analysis

The Group's net cash inflows from operating activities amounted to RMB121,512 million. Of these, cash inflows generated from operating activities reported RMB37,871 million; cash outflows arising from changes in operating assets stood at RMB160,060 million; and cash inflows arising from changes in operating liabilities totaled RMB243,701 million.

The Group's net cash outflows from investment activities amounted to RMB1,137 million, of which cash inflows generated from disposal and redemption of investments reported RMB629,905 million and cash outflows arising from payments on acquisition of investment amounted to RMB630,007 million.

Net cash outflows from financing activities were RMB79,417 million, of which cash outflows generated from payment of debt registered RMB67,401 million.

V. Analysis of Loan Quality

(I) Distribution of loans by industry

During the reporting period, by focusing on the target of economic restructuring, transformation and upgrading, the Group proactively adjusted its credit portfolio by industry. As a result, the proportion of its loans to manufacturing, wholesale and retail industries reduced while the loans to such industries as leasing and commercial services went up.

Unit: RMB million, %

Item	30 June 2018 Balance	30 June 2018 Percentage	31 December 2017 Balance	31 December 2017 Percentage
Manufacturing	252,106	19.77	241,125	20.44
Water, environment and public utility management	220,177	17.27	209,223	17.74
Real estate	162,981	12.78	142,010	12.04
Leasing and commercial services	146,239	11.47	126,451	10.72
Wholesale and retail trade	112,129	8.79	109,268	9.26
Transportation, storage and postal services	95,078	7.46	91,949	7.79
Construction	63,427	4.97	62,984	5.34
Finance	62,491	4.90	49,780	4.22
Production and supply of power, gas and water	42,230	3.31	42,237	3.58
Agriculture, forestry, animal husbandry and fishery	27,753	2.18	20,221	1.71
Others	90,578	7.10	84,415	7.16
Subtotal of corporate loans and advances	1,275,189	100.00	1,179,663	100.00
Personal loans and advances	934,165		830,004	
Discounted bills	23,328		22,389	
Gross loans and advances to customers	2,232,682		2,032,056	

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

(II) Distribution of loans by region

The distribution of the Group's loans by region remained relatively stable.

Unit: RMB million, %

Region	30 June 2018 Balance	30 June 2018 Percentage	31 December 2017 Balance	31 December 2017 Percentage
Yangtze River Delta	424,766	19.02	382,262	18.80
Central	353,798	15.85	314,516	15.48
Bohai Rim	333,800	14.95	322,013	15.84
Western	316,648	14.18	301,306	14.83
Pearl River Delta	267,184	11.97	235,902	11.61
Northeastern	116,449	5.22	113,724	5.60
Head Office	350,556	15.70	303,300	14.93
Overseas	69,481	3.11	59,033	2.91
Gross loans and advances to customers	2,232,682	100.00	2,032,056	100.00

(III) Types of loan collateral and their proportions

The Group's guaranteed loans, mortgage loans and pledged loans combined accounted for 68.97% of the total, and the remaining unsecured loans were mainly offered to customers with relatively high credit ratings.

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Unsecured loans	692,710	31.03	591,866	29.13
Guaranteed loans	521,190	23.34	451,380	22.21
Mortgage loans	771,492	34.55	754,180	37.11
Pledged loans	247,290	11.08	234,630	11.55
Gross loans and advances to customers	2,232,682	100.00	2,032,056	100.00

(IV) Top 10 loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as of 30 June 2018	Proportion to total loans	Proportion to net capital
Borrower A	Manufacturing	5,622	0.24	1.44
Borrower B	Leasing and commercial services	4,900	0.22	1.26
Borrower C	Water, environment and public utility management	4,600	0.21	1.18
Borrower D	Transportation, storage and postal services	4,274	0.19	1.09
Borrower E	Water, environment and public utility management	3,730	0.17	0.96
Borrower F	Real estate	3,577	0.16	0.92
Borrower G	Manufacturing	3,490	0.16	0.89
Borrower H	Transportation, storage and postal services	3,246	0.15	0.83
Borrower I	Transportation, storage and postal services	3,053	0.14	0.78
Borrower J	Production and supply of power, gas and water	3,000	0.13	0.77
Total amount		39,492	1.77	10.12

Note: The proportion of the balance of loans to net capital is calculated according to the requirements of the CBIRC.

Discussion and Analysis of Operations

(V) Five-category loan classification

Due to some internal and external factors such as macro economy slowdown and structural adjustment, the Group's NPLs increased moderately. As at the end of the reporting period, the balance of NPLs reported RMB33,790 million, representing an increase of RMB1,398 million as compared with that at the end of the previous year. The NPL ratio was 1.51%, down by 0.08 percentage point over the end of the previous year.

Unit: RMB million, %

Item	30 June 2018 Balance	30 June 2018 Percentage	31 December 2017 Balance	31 December 2017 Percentage
Normal	2,146,408	96.14	1,939,378	95.44
Special mention	52,484	2.35	60,286	2.97
Substandard	14,479	0.65	10,204	0.50
Doubtful	11,390	0.51	13,875	0.68
Loss	7,921	0.35	8,313	0.41
Gross loans and advances to customers	2,232,682	100.00	2,032,056	100.00
Performing loans	2,198,892	98.49	1,999,664	98.41
Non-performing loans	33,790	1.51	32,392	1.59

(VI) Loan migration ratio

Unit: %

Item	30 June 2018	2017	Change from 2017 to 30 June 2018	2016
Loan migration ratio of normal loans	0.94	1.68	-0.74	3.31
Loan migration ratio of special mention loans	18.63	22.49	-3.86	26.78
Loan migration ratio of substandard loans	70.74	57.69	+13.05	62.17
Loan migration ratio of doubtful loans	6.58	36.18	-29.60	25.66

(VII) Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Item	30 June 2018 Balance	30 June 2018 Proportion to total loans	31 December 2017 Balance	31 December 2017 Proportion to total loans
Restructured loans and advances	18,663	0.84	19,685	0.97
Of which: Restructured loans and advances to customers overdue more than 90 days	1,353	0.06	971	0.05

2. Please refer to "Notes to Financial Statements" for details of overdue loans.

(VIII) NPLs by business type

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Corporate loans	22,673	67.10	22,785	70.34
Personal loans	11,117	32.90	9,607	29.66
Discounted bills	–	–	–	–
Total amount of NPLs	33,790	100.00	32,392	100.00

(IX) Distribution of NPLs by region

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

Unit: RMB million, %

Region	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Bohai Rim	5,332	15.78	5,281	16.30
Yangtze River Delta	5,305	15.70	5,006	15.45
Western	4,846	14.34	4,727	14.59
Pearl River Delta	4,498	13.31	5,160	15.94
Northeastern	3,838	11.36	2,827	8.73
Central	3,555	10.52	4,483	13.84
Head Office	6,408	18.97	4,900	15.13
Overseas	8	0.02	8	0.02
Total amount of NPLs	33,790	100.00	32,392	100.00

Discussion and Analysis of Operations

(X) Distribution of NPLs by industry

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

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Manufacturing	11,571	34.24	11,111	34.30
Wholesale and retail trade	6,844	20.26	7,646	23.60
Accommodation and catering	1,032	3.05	223	0.69
Construction	907	2.68	989	3.05
Real estate	586	1.73	275	0.85
Mining	557	1.65	1,164	3.59
Transportation, storage and postal services	297	0.88	269	0.83
Scientific research, technical services and geological prospecting	247	0.73	247	0.76
Production and supply of power, gas and water	219	0.65	136	0.42
Others	413	1.23	725	2.25
Subtotal of corporate loans	22,673	67.10	22,785	70.34
Personal loans	11,117	32.90	9,607	29.66
Discounted bills	–	–	–	–
Total amount of NPLs	33,790	100.00	32,392	100.00

Note: "Others" consist of information transmission, computer services and software; agriculture, forestry, animal husbandry and fishery; leasing and commercial services; health, social security and social welfare; public administration and social organization; education; finance; and water, environment and public utility management.

(XI) Distribution of NPLs by collateral types

Unit: RMB million, %

Item	30 June 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
Unsecured loans	8,752	25.90	7,597	23.45
Guaranteed loans	11,382	33.69	11,280	34.83
Mortgage loans	11,722	34.69	11,218	34.63
Pledged loans	1,934	5.72	2,297	7.09
Total amount of NPLs	33,790	100.00	32,392	100.00

(XII) Repossessed assets and provision for impairment

Unit: RMB million

Item	30 June 2018	31 December 2017
Repossessed assets	628	494
Of which: land, buildings and structures	628	494
Less: Provision for impairment	(15)	(18)
Net value of repossessed assets	613	476

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

The Group's provision for loan impairment includes provision for impairment of corporate loans and personal loan measured at the amortized cost as well as provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income. The Group conducts credit risk test on financial instruments on the balance sheet date, and made provision for the estimated credit loss for loans of varied risk levels according to their potential risk. The provision for impairment losses were recognized through profit or loss for the current period.

Unit: RMB million

Item	30 June 2018	31 December 2017
Balance at the beginning of the period[1]	58,071	43,634
Charge for the period[2]	20,918	20,937
Release for the period	(6,159)	(1,237)
Recoveries due to written-off loans and advances for the period	668	884
Unwinding of discount[3]	(473)	(1,015)
Write-offs during the period	(5,624)	(6,007)
Disposal and other in the period	(9,366)	(5,958)
Balance at end of the period[1]	58,035	51,238

Notes:

1. It excludes provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income.

2. It includes provisions for impairment of loans made due to change of stage and change in cash flow resulting in loans contract being not derecognized.

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

VI. CAR Analysis

Please refer to "Accounting Data and Financial Indicators" for more details.

VII. Segment Performance

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

(I) Performance by regional segment

Unit: RMB million

Item	January – June, 2018		January – June, 2017	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	7,405	2,575	6,942	2,572
Pearl River Delta	4,612	788	4,389	1,237
Bohai Rim	6,656	(766)	6,558	1,635
Central	5,388	1,219	6,621	2,728
Western	3,784	669	4,391	1,261
Northeastern	1,620	(340)	1,960	216
Head Office	22,108	16,958	14,943	11,963
Overseas	730	557	581	392
Total	52,303	21,660	46,385	22,004

(II) Performance by business segments

Unit: RMB million

Item	January – June, 2018		January – June, 2017	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking business	22,129	4,102	21,345	8,404
Retail banking business	21,613	10,122	17,949	7,752
Financial market business	8,501	7,393	7,013	5,841
Other business	60	43	78	7
Total	52,303	21,660	46,385	22,004

Please refer to "Notes to Financial Statements" for more details.

VIII. Others

(I) Changes in major financial indicators and reasons

Unit: RMB million, %

Item	30 June 2018	31 December 2017	Increase/ (Decrease)	Major reasons for change
Deposits with banks and other financial institutions	24,024	44,754	-46.32	The scale of interbank assets shrank, and the deposits with depositary financial institutions decreased.
Precious metals	27,722	40,352	-31.30	The precious metals held scaled down.
Derivative financial assets	10,195	4,513	125.90	The revalued gain of derivative products rose.
Financial assets held under resale agreements	62,454	91,441	-31.70	Bonds held under resale agreements decreased.
Financial assets at fair value through profit or loss	258,970	24,196	N/A	
Debt instruments at fair value through other comprehensive income	145,529	–	N/A	
Equity instruments at fair value through other comprehensive income	112	–	N/A	Affected by the implementation of IFRS 9, the reclassification of some assets resulted in adjustments to the items presented in the statement.
Financial investments measured at amortized cost	900,373	–	N/A	
Available-for-sale financial assets	–	414,547	N/A	
Held-to-maturity investments	–	344,617	N/A	
Debt securities classified as receivables	–	514,576	N/A	
Deferred tax assets	9,963	7,596	31.16	Affected by the adoption of IFRS 9, the provision increase and change in value led to increase in deferred tax assets.
Other assets	33,870	17,164	97.33	The amount to be cleared increased.
Deposits from banks and other financial institutions	159,107	106,798	48.98	Deposits from depositary financial institutions increased.
Derivative financial liabilities	9,851	6,552	50.35	The revalued loss of derivative products rose.
Other comprehensive income	(460)	(1,845)	-75.07	Affected by the adoption of IFRS 9, changes in fair value of financial assets at fair value through other comprehensive income and provision for impairment of assets led to increase in other comprehensive income.

Discussion and Analysis of Operations

Item	January – June, 2018	January – June, 2017	Increase/ (Decrease)	Major reason for change
Fee and commission expense	1,304	956	36.40	Expenses arising from e-banking and credit card fees increased.
Net trading gains/(losses)	2,284	(1,330)	N/A	Affected by the adoption of IFRS 9, net trading gains increased.
Net gains/(losses) arising from investment securities	6,250	(76)	N/A	Affected by the adoption of IFRS 9, financial assets at fair value through profit or loss generated more net earnings from investment securities.
Net foreign exchange (losses)/gains	(2,235)	1,140	N/A	The net foreign exchange loss increased due to the changes of exchange rate.
Impairment losses on assets	14,568	10,030	45.24	More credit provisions were set aside.
Other comprehensive income, net of tax	660	(1,388)	N/A	Affected by the adoption of IFRS 9, changes in fair value of financial assets at fair value through other comprehensive income and provision for impairment of assets led to increase in other comprehensive income.

(II) Overdue and outstanding debts

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

(III) Interest receivable and provision for bad debts related

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the year	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance sheet interest receivable	28,628	72,179	71,297	29,510

2. Provision for bad debts of interest receivable

Unit: RMB million

Item	30 June 2018	31 December 2017	Increase
Balance of provision for bad debts of interest receivable	4	52	(48)

(IV) Other receivables and provision for bad debts related

1. Change in other receivables

Unit: RMB million

Item	30 June 2018	31 December 2017	Increase
Other receivables	25,355	8,693	16,662

2. Provision for bad debts of other receivables

Unit: RMB million

Item	30 June 2018	31 December 2017	Increase
Balance of provision for bad debts of other receivables	621	566	55

IX. Performance of Business Segments

(I) Corporate banking

1. Corporate deposits and loans

The Bank continued to highlight the dominant position of core deposits, developed such basic and fundamental business lines as settlement, clearing, agency, cash management, custody, payroll service with solid efforts, used financial technology actively, allowed fiscal service, supply chain finance, cloud fee payment, and other business forms to play their leading role, and worked hard to take in cost-efficient funds. At the same time, it took serving real economy and promoting supply –side structural reform as its primary mission and relied on major national strategies to offer substantially increased credit support for fields relating to real economy. Besides, it kept optimizing the structure of corporate business, established a stratified marketing service mode for key customers, and further consolidated customer base. As at the end of the reporting period, the balance of corporate deposits amounted to RMB1,891,925 million (including the corporate part contained in other deposits), representing an increase of RMB90,977 million or 5.05% from that as at the end of the previous year. The balance of corporate loans totaled RMB1,275,189 million, up by RMB95,526 million or 8.10% from the end of the previous year.

2. Inclusive finance

During the reporting period, the Inclusive Financial Business Division was set up by the Head Office, responsible for building and enhancing mechanisms and systems in relation to risk management, evaluation and incentive, allocation of special quotas, due diligence & liability exemption, and other aspects. Taking "supply chain, big data and online operation" as three major directions of development, the Bank increased R&D inputs into technology and innovation, and rolled out "Sunshine e Grain Loans" which supported automatic application approval and loan granting. Besides, all branches have established their own Inclusive Finance Management Committees and Inclusive Financial Business Departments. We have been promoting the credit factory model in which business is processed in a centralized, professional and massive way. As of the end of the reporting period, calculated by the evaluation standards of the CBIRC, the Bank's balance of loans to small and micro enterprises (SMEs) (each of which was granted with credit in an amount of no more than RMB10 million) posted RMB111,265 million, representing an increase of RMB13,225 million or 13.49% over the end of the last year. The Bank had 281.4 thousand SME customers in total, representing an increase of 24.2 thousand customers as compared with those at the end of the previous year.

3. Investment banking

The Bank gathered pace in transforming and upgrading its investment banking business strategically, and worked hard to provide customers with wealth management services of high quality. During the reporting period, it served as a leading underwriter in the issuance of 153 non-financial corporate debt instruments with a value of RMB118.1 billion; served as a joint leading underwriter in the issuance of Central Huijin-branded mid-term notes worth RMB15 billion; made vigorous efforts to support supply-side structural reform, provided M&A financing worth more than RMB20 billion, and launched its first project engaged in privatization of China concept stocks and its first project aimed for joint operation between mainland China and Hong Kong; and diversified the category of non-debt businesses, by launching its first project designed to securitize consumer loans on credit cards in installments.

4. Trade finance

The trade finance segment of the Bank was dedicated to promoting the transformation of transaction banking. It worked hard to develop the "Sunshine Supply Chain" product series, capitalized on its advantages in asset efficiency, optimized resource allocation and product structure, and propelled fee-based business towards fast growth. At the same time, it gathered pace in building FTZ branches and engaging in business innovation, and boosted business cooperation and product innovation between domestic branches and FTZ-based/overseas branches, with an aim to create a platform that could offer a full package of financial services. To seek for e-enabled operation, it vigorously developed the online supply chain and cross-border e-commerce payment business, and actively facilitated the building of cross-border fund pool and the e-service platform and system for international settlement and trade finance. As at the end of the reporting period, the balance of the on-balance-sheet and off-balance-sheet trade finance totaled RMB352.386 billion, increasing by 19.88% as compared with that at the end of the previous year.

(II) Retail banking

1. Personal deposits

The Bank took an active part in scaling up personal deposits. Focusing on the sources and flows of customer funds and relying on Category I/II accounts, the Bank expanded and deepened online and offline retail projects, and applied them to more diversified scenarios. Faced with market change, the Bank rolled out the innovative personal large-denomination C/D product "Monthly Interest Product". The Bank continuously promoted the development of projects such as shanty town transformation, payroll service, third-party fund custodian service, and "Going Abroad" finance so as to further enhance their supporting effect on personal deposits. Additionally, the Bank also intensified the collaboration between the corporate banking and the retail banking business lines, strengthen the integration of different retail banking resources, and explored various ways to improve customers' comprehensive contribution. As at the end of the reporting period, the balance of personal deposits (including personal deposits in other deposits) of the Bank amounted to RMB543,609 million, representing an increase of RMB71,892 million or 15.24% over the end of the previous year.

2. Personal loans

The Bank actively practiced the national strategy of developing inclusive finance, and provided individual businesses and SMEs with convenient and efficient financing products. Taking different mass consumption scenarios into consideration, the Bank provided various kinds of petty loans to its individual customers. Besides, the Bank strictly implemented the state regulation and control policies on real estate market, and supported residents' reasonable demand for housing loans. Using big data technologies, the Bank integrated data resources and captured effective information to improve the risk control system of personal loans and to further intensify compliance management. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB583,863 million, representing an increase of RMB54,475 million or 10.29% over the end of the previous year. The volume of personal loans granted by the Bank in 2018 was RMB100,832 million.

3. Private banking

The Bank upheld the service philosophy that values "professionalism, privacy, respect and security", and took "becoming the partner of companies and families" as its goal, and provided private banking customers with integrated services in wealth management, taxation planning, legal consulting, etc. The Bank upgraded its private banking service system from the following four aspect: launch of high-end financial services and functions, issuance of exclusive diamond cards, introduction of dedicated mobile banking service channels, and enhancement in customer experience. Besides, in a bid to provide professional investment advisory service, the Bank released the asset allocation reports on a quarterly basis. As at the end of the reporting period, the Bank had 31,787 private banking customers, representing an increase of 1,297 persons or 4.25% over the end of the last year. The total assets under management amounted to RMB307,254 million, representing an increase of RMB21,944 million or 7.69% higher compared with the end of the previous year.

4. Bank card business

(1) Debit card business

The Bank took active measures to bring personal bank settlement accounts under classified management, exercised efficient control over debit card functions, and enhanced risk control standards. At the same time, it set up the value-added service systems for different levels and categories of customers, rolled out the brand-new diamond cards, and created a platform that could offer high-end customers with more comprehensive financial services. By marrying its innovative financial products to third-party industry and internet platforms, the Bank devised a new operational mode that integrated electronic accounts, financial products and services concerning people's livelihood to boost the development of real economy. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 62.98 million, including 2.32 million new cards issued in the year.

(2) Credit card business

While seeking for product innovation vigorously, the Bank rolled out credit cards that were applied to various scenarios such as Sohu Video and VISA World Cup; launched the "Enjoying Sunshine-bathed Traveling" themed marketing activities in a bid to forge the best traveling service brand across the industry; assisted the Group in cementing its cooperation with Tencent, JD.COM and other strategic partners concerning product, customer acquisition, marketing, risk control, operation and other aspects; and conducted rigid risk management and enhanced risk control capacity with big data technologies and artificial intelligence (AI) algorithms in an all-round way. As at the end of the reporting period, 6.046 million new credit cards were issued by the Bank with the total number of credit cards reaching 51.3093 million. The transaction volume during the reporting period was RMB1,064,730 million, up by 43.51% over the end of last year. The overdraft balance amounted to RMB351,230 million (excluding transitional adjustment to account), up by 15.94% over the same period of last year. The business line generated an operating income of RMB18,246 million, up by 40.68% year on year.

5. E-banking business

The Bank continued to pursue the strategy of "mobile-first operation, intelligent services and open finance", prioritized developing the following five business segments: Cloud Fee Payment, Cloud Payment, Online Loan, Mobile Banking and Direct Banking, and established the Cloud Fee Payment Business Center at the same time. As at the end of the reporting period, there were over 2,700 projects on Cloud Fee Payment platform, with the transaction volume reaching RMB78,691 million, up by 153.48% year on year, and the total number of transactions hitting 464 million, up by 139.18% year on year. The e-payment transactions amounted to RMB545,151 million, representing a year-on-year increase of 31.61%; the balance of online loans posted RMB21,771 million, up by RMB18,141 million by the end of the last year; and mobile banking had 40.79 million customers, signaling an increase of 5.44 million over the end of the previous year.

(III) Financial markets business

1. Financial markets business

The Bank strengthened treasury management, so as to guarantee liquidity security and use funds more efficiently; expanded the scale of and optimized the structure of bond investments, primarily invested in government bonds and high-grade debenture bonds, and generated more earnings from investment portfolios; increased the proportion of transactions and agency business to facilitate the transformation towards asset-efficient operation; and boosted the high-quality development of gold leasing business line, with a view to increasing fee-based business income. As at the end of the reporting period, the balance of bonds in proprietary account stood at RMB557,854 million, accounting for 13.02% of the it's total assets, 56.19% of which were government bonds and local government bonds. The Bank accumulatively scored RMB11.84 trillion in RMB bond settlement, which was at the forefront of the joint-stock commercial banks in China.

2. Interbank business

The Bank continued to scale down the interbank assets, put interbank business under intensified franchised management, and guaranteed operational compliance. At the same time, it further strengthened the management of interbank asset and liability portfolios, optimized the term structure of assets and liabilities, and met the needs of the bank-wide liquidity management. Besides, the Bank moved faster to adjust the interbank investment structure, primarily invested in standardized products, and served the development of real economy. Furthermore, it also worked hard to improve its capability in managing customer relations, and seized every opportunity to acquire interbank customers and expand the customer base. As at the end of the reporting period, the balance of interbank deposits amounted to RMB605,333 million.

3. Asset management

Guided by regulators, the Bank pursued for operational compliance and stability while transforming its asset management business segment. On the premise of guaranteeing liquidity security, it launched net worth products at a steady pace, actively adjusted the structure of investment products by increasing the proportion of standardized assets, and stepped up efforts to predict and study possible market trends in order to better serve the development of real economy. As at the end of the reporting period, the balance of wealth management products at the Bank amounted to RMB973,489 million, and the sales volume of these products in the first half of 2018 totaled RMB2.57 trillion. All products under “Sunshine Wealth Management” brand were honored upon maturity, and the risk status of the outstanding products remained normal.

4. Asset custodian services

The Bank developed its asset custodian services under the guidance of the tenet that advocated seizing a larger market share, intensifying innovation, and enhancing service quality. Specifically, it stepped up marketing efforts. As a result, its wealth management assets under custody expanded steadily. In the meantime, the Bank worked hard to make product innovations, vigorously developed the asset management-related administrative business, optimized the new-generation asset custodian system, and put in place the sound custodian product and business system. Besides, it enhanced service capacity, strengthened risk management, and made sure the custodian business could operate stably. As at the end of the reporting period, the volume of asset custodian business reached RMB5,499,058 million, and the income after tax from such business amounted to RMB694 million.

X. Business Innovation

The Bank successively launched multiple innovative products based on supply chain, which included “Sunshine Refactoring”, “Sunshine e Financing Chain” and “Factoring for TCL Jiandanhui Platform” and “Cloud Chain Factoring”, as a move to boost the development of real economy. Adapting itself to the new regulatory policies, it rolled out the new-generation net worth wealth management product series named “Colored Sunshine”, and became the first Chinese bank who enabled its intelligent counters to offer the new added-value service, that is, reissuing new cards in original numbers to customers instantly. At the same time, the Bank issued its first dynamic security code-enabled Master credit cards across China. Besides, biological recognition technologies were applied in its new-version mobile banking, in an effort to optimize various business flows and improve customer experience substantially.

XI. Information Technology

The Bank successively rolled out a raft of major projects, which included the core business system (version 3.0), the personal loan system, the new-generation corporate business management system, the new-generation wealth management platform, the asset management business intelligence system, and the intelligent counter. Vigorously applying such new technologies as big data, cloud computing, blockchain, and AI into various fields, the Bank issued many big-data-related products including “Monthly Customized Statements” and “Everbright Quick Loan”. At the same time, it also optimized the functions of the cloud computing management platform, extended the “Pan-Asset Management, Sunshine Chain” asset management system connected to a wider ranges of fields, expanded the application of counter-based face recognition and VIP customer-exclusive face recognition, enabled mobile bank, direct bank and other business lines to support face recognition and verification, and upgraded the intelligent text entry module (version 9.0) in the customer service system. During the reporting period, the Bank maintained its information system under stable operation, incurring no major security incident.

XII. Investment Analysis

(I) External equity investments

As at the end of the reporting period, the balance of the Bank's external equity investments was RMB4,410 million, which was on a par with that as of the end of the previous year.

(II) Material equity investments

Unit: RMB ten thousand, ten thousand shares, %

Investment entity	Principle business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	270,000	333,000	90	22,986	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	789	Sany Group Co., Ltd., Hunan Poly Real Estate Development Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan City Construction Investment Company Limited
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Commercial banking	7,000	7,000	70	161	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Corporation Limited	Investment banking	HKD1,600 million	–	100	HKD5.86 million	Nil
China Everbright Bank (Europe) S.A.	Full banking license business	EUR20 million	–	100	EUR-1.1552 million	Nil
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	702,100	Other commercial banks

Notes: 1. All the major equity investments mentioned above were made with equity fund.

2. All the major equity investments mentioned above were long-term investments.

3. All the major equity investments mentioned above were not subject to any litigation.

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

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

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

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

XIV. Analysis of Major Companies in Which the Bank Held Equity

(I) Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company is engaged in financial leasing business. The company was registered in Wuhan City, Hubei Province with a registered capital of RMB3,700 million. During the reporting period, the company was mainly engaged in financial leasing business in relation to non-standard equipment leasing, aircraft facility leasing, automobile leasing, and healthcare equipment. As at the end of the reporting period, its total assets, net assets and net profit were RMB69,281 million, RMB5,855 million and RMB230 million, respectively.

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

Founded in September 2009, the Rural Bank is engaged in commercial banking services including taking in deposits and granting loans. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it continued working hard to serve farmers, agriculture and rural areas as well as local people. It helped support the growth of small and micro-sized corporate business and county economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets, net assets and net profit posted RMB794 million, RMB211 million and RMB7.89 million, respectively.

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

Incorporated in February 2013, the Rural Bank is engaged in commercial banking services including taking in deposits and granting loans. It was registered in Huai'an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve farmers, agriculture and rural areas and, and developed the small and micro-sized corporate business, thus achieving steady growth. As at the end of the reporting period, its total assets, net assets and net profit reached RMB919 million, RMB124 million and RMB1.61 million, respectively.

(IV) CEB International Investment Corporation Limited

Registered with a capital of HKD1,600 million in Hong Kong in June 2015, the company has been licensed in securities trading, securities consulting, financial consulting and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsor and underwriting, additional issuance and placement of new shares on secondary market, and enterprise refinancing. As at the end of the reporting period, its total assets, net assets and net profit stood at HKD7,655 million, HKD1,245 million and HKD5.86 million, respectively.

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

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it is mainly engaged in deposit taking, loan granting, bill and bond issuance and any other business that can be conducted by credit agencies according to local laws. During the reporting period, it focused its efforts on developing import and export refinance and domestic guarantee for overseas loans. As at the end of the reporting period, its total assets, net assets and net profit reported EUR49.1181 million, EUR16.4392 million and EUR-1.1552 million, respectively.

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

1. There are no special purpose entities controlled by the Bank.

2. The structured products whose equities are held by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to Financial Statements" for more details.

XVI. Risk Management

(I) Credit Risk Management

The Bank continued to optimize its comprehensive risk management framework, performed its duties in relation to three lines of defense, and coordinated the management of various risks as a whole. At the same time, it refined ways to manage credit orientation policies, and highlighted differentiated policies for different regions and industries, enhanced credit allocation management of key customers of the Group, and increased the risk control efficiency over the key processes by regulating credit process and reinforcing unified credit management for such customers.

The Bank strove to optimize the credit structure. Aiming to transform itself towards "comprehensive, featured, light and digitalized operation", it devoted every effort to transform its credit and investment business lines, and worked hard to serve real economy, support supply-side structural reform, and promote industry development with financial strength. At the same time, the Bank capitalized on the mindset of internet and related technologies to introduce more marketing channels, innovate in products and services, and develop inclusive finance and consumer finance. Besides, it also vigorously supported the state in implementing its development strategies for major regions, came up more ways to develop investment banking, did better in integrating funds, products and channels, and offered comprehensive financial services as actually needed by real economy.

The Bank improved the all-round, coordinated management system of asset quality; brought loans under rigid classified management, and classified risks in a prudent and consistent manner, so as to reveal risks arising from loans truthfully. Besides, it pursued the prudent, robust and objective provision policies while putting each potential asset loss under impairment test and provisioning according to the new accounting standards for financial instruments.

Please refer to "Notes to Financial Statements" for further details.

(II) Liquidity risk management

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

Please refer to "Notes to Financial Statements" for further details.

(III) Market risk management

The Bank continued to improve its market risk management mechanism, and optimized the investment decision-making mechanism and the market risk management procedures. At the same time, it strengthened monitoring on negative incidents that took place in the market, carried out market risk stress tests on a regular basis, and managed market risk more proactively. Besides, the Bank strove to optimize the limit structure, and brought the business lines affected by market risk factors under the unified market risk limits management system.

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

(IV) Operational risk management

The Bank focused its efforts on hierarchical management, based its work on the three lines of defenses, continued to emphasize responsibilities of all business lines and functional departments as the “first line of defense” in operational risk management. In the meantime, it employed risk self-assessment, loss incident gathering, and key risk indicators as three management instruments to identify, monitor, collect, analyze, warn against, handle, and report operational risk, and forestall the occurrence of severe operational risk incidents and cases. Besides, the Bank continuously stepped up efforts to screen whether there was abnormal information on financial transactions carried out by employees and customers, and gave full play to unannounced inspections.

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

(V) Compliance risk management

The Bank kept reinforcing the compliance risk management by primarily making sure second level branches could take solid internal control and compliance measures. It closely kept track of the changes in external laws and regulations, and upgraded its regulatory library correspondingly. The assessment and review of rules and policies were carried out in a bid to improve the Bank’s institutional environment. Special inspections were conducted to check whether persons holding the posts in charge of compliance, audit and grass-roots outlets rotated as prescribed by the related policies. Any deficiencies, if detected, were rectified as instructed. Multiple means such as competition, guidance, lecture, and online trainings were employed to help all employees raise their awareness of compliance.

(VI) Reputational risk management

Guided by the overall principle of “early warning, thorough analysis and proper disposal”, the Bank further raised the bank-wide awareness of reputational risk to a higher level, and strengthened the capability of identifying and handling reputational risk. At the same time, it worked harder to screen out reputational risk, and stepped up efforts in team building, personnel training, and performance evaluation, so as to forestall the occurrence of reputational risk incidents effectively. Public opinions on the Bank remained normal during the reporting period.

(VII) Anti-money laundering (AML) management

The Bank engaged in AML centralized operations across the board, by asking branches to set up their AML monitoring center and recruit professional AML teams. At the same time, it continued to optimize the functions of AML system, intensified the identification of beneficiaries, and brought high-risk customers under intensified management. The Bank actively carried out due diligence checks on tax-related information of non-residents' financial accounts, stringently performed international obligations, and fully acted on the UN Security Council's resolutions on economic sanctions and counter terrorist financing (CTF).

XVII. Outlook of the Bank

(I) Fulfillment of operation plan

In the first half of 2018, the Bank achieved great progress as exemplified by the stably increasing assets, continuous structural adjustment, fairly fast growth of income, constantly enhanced profitability, overall controllable risks of all sorts, and sound implementation of annual operation plan.

(II) Potential risks and countermeasures

At present, the world is facing an increasingly complicated political and economic environment. On one hand, the world economy continues to recover. On the other hand, trade friction, geopolitical tension and other factors are posing considerable uncertainty on the development of global economy. Domestically, positive changes have emerged in the Chinese economy and finance thanks to structural adjustments. Even so, there are still some deeply-rooted problems. Against the background of rigid regulation, de-leveraging and risk prevention, a host of regulatory policies including new rules on asset managements have come into force, thus exposing commercial banks to considerable operational pressure and challenges.

Committed to seeking progress while keeping performance stable, the Bank will focus on improving the quality and efficiency of development, and strengthening risk management and internal control. At the same time, it will gather pace in operational transformation, and get the following aspects of work done properly. Firstly, intensifying credit risk management, issuing more effective early warnings, handling emergencies better, and sharpening core competitiveness over credit risk management in the era of internet. Secondly, doing well in liquidity risk management, and guaranteeing liquidity security. Thirdly, lifting operational risk control to a higher level, taking operational compliance as the bottom line and strictly adhering to it. Fourthly, attaching high importance to operational and technological risk, and maintaining an operational environment that is secure and stable.

Significant Events

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

During the reporting period, the Bank, its actual controllers and controlling shareholders did not make any new important undertakings. As at the end of the reporting period, all the continuing commitments made by the Bank, its actual controllers and controlling shareholders were properly fulfilled, with the details listed in the 2017 Annual Report.

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

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

III. Matters Concerning Bankruptcy or Reorganization

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

IV. Material Litigation and Arbitration Matters

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

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

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

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

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

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

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

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

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

IX. Changes in Accounting Policies

The Ministry of Finance released the new accounting standards for financial instruments and revenue in 2017, and required the companies listed as both A shares and H shares to adopt these new standards since 1 January 2018. While preparing its financial statements for the first half of 2018, the Bank has implemented the above-mentioned accounting standards. According to the related transitional provisions for the execution of these standards, there is no need to restate the comparable data in previous periods, the retained income and other comprehensive income at the beginning of 2018 were adjusted as affected by related data.

X. Matters Concerning Connected Transactions of the Bank under the Rules Governing the Listing of Securities on HKEX (hereinafter referred to as "the Hong Kong Listing Rules")

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

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

XI. Material Contracts and Their Performance

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

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

(II) Significant guarantee

During the reporting period, the Bank did not have any material guarantee that needed to be disclosed save for the financial guarantees within the business scope as approved by the regulatory authorities. No guarantee business that violated the applicable regulations or decision-making procedures took place at the Bank.

(III) Other material contracts

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

XII. Fulfillment of Social Responsibilities

(I) Targeted poverty alleviation

During the reporting period, the Bank got actively involved in the Group's poverty alleviation drive at designated counties, by making donations of RMB5 million to these counties. While making targeted poverty alleviation in the light of local conditions, it channeled considerable talents and funds to poor areas, financed their infrastructure construction, promoted local industry development, and delivered related trainings and assistance. While shoring up poverty alleviation efforts by financial means, the Bank continued to extend more agriculture-related loans and poverty alleviation loans. At the same time, it performed its social responsibilities through charitable poverty alleviation, and donated RMB3 million to the "Water Cellar for Mothers", a public welfare project initiated by China Women's Development Foundation.

(II) Environmental information

The Bank made vigorous efforts to develop green finance, supported energy-conserving and eco-friendly industries, engaged in green operation, and undertook public welfare projects in relation to environmental protection. The Bank falls outside the lists of key pollutant discharging unit released by the environmental protection authorities. More related environmental protection information can be found in its *Corporate Social Responsibility Report*.

XIII. Other Significant Events

On 28 February 2017, the Bank had its plan for second issuance of preference shares not exceeding RMB50 billion reviewed and approved at the Shareholders' General Meeting. On 28 February 2018, the *Proposal on Reauthorizing the Board of Directors to Address the Issues Concerning the Domestic Non-public Issuance of Preference Shares* was reviewed and approved at the Shareholders' General Meeting, and the term of reauthorization would last 12 months since the day when the resolution took effect. As at the disclosure date of this Report, the matter is in progress.

XIV. Significant Events of Subsidiaries

(I) Everbright Financial Leasing Co., Ltd.

On 9 May 2017, the former CBRC approved in its reply that the Bank could further invest no more than RMB1,980 million to Everbright Financial Leasing Co., Ltd. On 21 June 2018, Hubei Office of the CBIRC approved in its reply that the company's registered capital could be increased to RMB4,800 million, of which RMB990 million came from the Bank. In July 2018, the Bank made a capital increase of RMB990 million to the company. During the reporting period, the company did not make profit distribution and got involved in no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

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

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

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

During the reporting period, the Rural Bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. In August 2018, it distributed cash dividends of RMB6 million to all equity shareholders.

(IV) CEB International Investment Corporation Limited

During the reporting period, the company did not make profit distribution and got involved in no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

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

During the reporting period, the company did not make profit distribution and got involved in no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

XV. Review of Interim Results

Ernst & Young, as the external auditor, reviewed the Bank's interim financial statements, which were prepared according to the International Accounting Standards and the disclosure requirements prescribed in the Hong Kong Listing Rules. The Board of Directors of the Bank and its Audit Committee reviewed and approved the interim results and financial statements of the Bank for the six months ended 30 June 2018.

XVI.Publication of Interim Report

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

Changes in Ordinary Shares Capital and Shareholders

I. Changes in Shares

Unit: share, %

	Before change		Changes during the reporting period	After change	
	Number	Percentage	Conversion of convertible bonds	Number	Percentage
I. Shares subject to trading moratorium	5,810,000,000	11.07	–	5,810,000,000	11.07
1. Shares held by state-owned legal persons	5,810,000,000	11.07	–	5,810,000,000	11.07
II. Shares not subject to trading moratorium	46,679,127,138	88.93	88,858	46,679,215,996	88.93
1. RMB-denominated ordinary shares	39,810,391,638	75.84	88,858	39,810,480,496	75.84
2. Overseas listed foreign shares	6,868,735,500	13.09	–	6,868,735,500	13.09
III. Total shares	52,489,127,138	100	88,858	52,489,215,996	100

II. Number of Shareholders

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	229,146	921

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

Based on the publicly available information and to the knowledge of the Directors, as at 30 June 2018, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by HKEX upon the IPO of the Bank.

IV. Shareholding of Top 10 Shareholders as at the End of the Reporting Period

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/ frozen
China Everbright Group Ltd.	Domestic legal person	–	A Shares	11,565,940,276	22.03	–
		–	H Shares	1,782,965,000	3.40	–
Hong Kong Securities Clearing Company Nominees Limited including:	–	941,000	H Shares	12,674,035,480	24.15	Unknown
Overseas Chinese Town Holdings Company	Domestic legal person	–	H Shares	4,200,000,000	8.00	–
Ocean Fortune Investment Limited	Overseas legal person	–	H Shares	1,605,286,000	3.06	–
China Life Reinsurance Company Ltd.	Domestic legal person	–	H Shares	1,530,397,000	2.92	–
Central Huijin Investment Ltd.	State	–	A Shares	10,250,916,094	19.53	–
China Securities Finance Corporation Limited	Domestic legal person	378,782,950	A Shares	2,060,573,303	3.93	–
China Everbright Limited	Overseas legal person	–	A Shares	1,572,735,868	3.00	–
China Reinsurance (Group) Corporation	Domestic legal person	–	A Shares	413,094,619	0.79	–
		–	H Shares	376,393,000	0.72	–
Shenergy (Group) Co., Ltd.	Domestic legal person	–	A Shares	766,002,403	1.46	–
Zhuhai Shipping Corporation Limited	Domestic legal person	–	A Shares	723,999,875	1.38	–
Central Huijin Asset Management Ltd.	Domestic legal person	–	A Shares	629,693,300	1.20	–
Yunnan Hehe (Group) Co., Ltd.	Domestic legal person	–	A Shares	626,063,556	1.19	–

Notes:

1. As at the end of the reporting period, 1.61 billion H shares held by Everbright Group and 4.2 billion H shares held by Overseas Chinese Town Holdings Company were subject to trading moratorium. Besides them, all other ordinary shares were not subject to trading moratorium.

2. The Bank was aware that as at the end of the reporting period, CHI held 55.67% and 71.56% interest in Everbright Group and China Reinsurance (Group) Corporation, respectively; Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of CHI; China Everbright Limited is a subsidiary indirectly controlled by Everbright Group; China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation; Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China Shipping (Group) Company. Save for the above, the Bank is not aware of any connected party relationship or concerted action among the above ordinary shareholders.

3. The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 12,674,035,480 H shares as at the end of the reporting period, of which, 4,200,000,000, 1,605,286,000, 1,530,397,000, 1,782,965,000 and 376,393,000 H shares of the Bank held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., Everbright Group and China Reinsurance (Group) Corporation respectively were under the name of Hong Kong Securities Clearing Company Nominees Limited. The number of remaining H shares of the Bank held under it was 3,178,994,480 H shares.

V. Time of Listing and Transaction for Shares Subject to Trading Moratorium

Unit: Share

Time	Number of shares available for listing and transaction upon the expiration of trading moratorium	Remaining shares subject to trading moratorium	Remaining shares not subject to trading moratorium
22 December 2022	5,810,000,000	5,810,000,000	46,679,215,996

VI. Shareholding of Top 10 Shareholders of Shares Subject to Trading Moratorium and Specific Trading Moratorium

Unit: Share

Name of shareholder of shares subject to trading moratorium	Number of shares subject to trading moratorium	Time of listing and transaction	Number of shares newly available for listing and transaction	Specific trading moratorium
Overseas Chinese Town Holdings Company	4,200,000,000	22 December 2022	–	H-share lock-up
China Everbright Group Limited	1,610,000,000	22 December 2022	–	H-share lock-up

VII. Other Shareholders Holding Shares of More than 5% or Having Significant Influence on the Bank

(I) China Everbright Group Limited holds more than 5% shares at the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is Central Huijin Investment Ltd. (CHI), with the shareholding percentage up to 55.67%. There is no pledge or freezing of the company's equity.

(II) Central Huijin Investment Ltd. holds more than 5% shares at the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is China Investment Corporation, with the shareholding percentage up to 100%. There is no pledge or freezing of the company's equity.

Changes in Ordinary Shares Capital and Shareholders

(III) Overseas Chinese Town Holdings Company holds more than 5% shares at the Bank. As one of the Bank's substantial Shareholders, the company's controlling shareholder is the State-owned Assets Supervision and Administration Commission under the State Council of China, with the shareholding percentage up to 100%. There is no pledge or freezing of the company's equity.

(IV) Although China Reinsurance (Group) Corporation holds less than 5% shares at the Bank. It is a substantial shareholder of the Bank since it dispatches directors to the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%. There is no pledge or freezing of the company's equity.

(V) Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited, totally holding less than 5% shares at the Bank, are subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited, which dispatches directors to the Bank (the nomination of the directors have been considered and approved by the Board of Directors and the Shareholders' General Meeting of the Bank, while the qualifications of the nominated directors are still to be ratified by the CBIRC). Therefore, the two companies are substantial shareholders of the Bank. There is no pledge or freezing of the companies' equity.

(VI) China Everbright Limited, a subsidiary indirectly controlled by Everbright Group, holds less than 5% of the shares of the Bank but dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. There is no pledge or freezing of the company's equity.

(VII) Shenergy (Group) Co., Ltd. holds less than 5% of the shares of the Bank but dispatches its supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission. There is no pledge or freezing of the company's equity.

In accordance with the Interim Measures on Equity Management at Commercial Banks (Decree No.1 of CBRC in 2018), the Bank has treats as its connected parties about 1,600 companies including the above major shareholders as well as their controlling shareholders, actual controllers, connected parties, persons acting in concert, and final beneficiaries. During the reporting period, the Bank incurred 25 connected transactions with 23 related parties listed above, which involved a total amount of RMB34,895 million. The above connected transactions have been reported to the Board of Directors and its Related Party Transactions Control Committee for approval or filing purpose through the related procedures.

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

As at 30 June 2018, so far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance of Hong Kong ("HKSFO") or which were required to be notified to the Bank:

Name of substantial shareholder	Notes	Class of shares	Type of interest	Long/ Short position	Number of shares	Percentage of relevant shares in issue (%)[4,5]	Percentage of the total issued shares (%)[4,5]
China COSCO Shipping Corporation Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
China Shipping (Group) Company	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
COSCO Shipping Financial Holdings Co., Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
Ocean Fortune Investment Limited	1	H Shares	Beneficial owner	Long	1,605,286,000	12.66	3.05
Central Huijin Investment Ltd.	2	H Shares	Interest of controlled corporation	Long	3,773,385,000	29.76	7.18
China Everbright Group Ltd.	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.55
China Reinsurance (Group) Corporation	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.03	3.63
China Life Reinsurance Company Ltd.	2	H Shares	Beneficial owner	Long	1,530,397,000	12.07	2.91
Overseas Chinese Town Holdings Company		H Shares	Beneficial owner	Long	4,200,000,000	33.12	8.00
China Everbright Group Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	15,375,917,552	38.62	29.29
Central Huijin Investment Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	26,669,621,565	66.99	50.80

Notes:

1. Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO Shipping Financial Holdings Co., Limited, while COSCO Shipping Financial Holdings Co., Limited is wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSFO, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited were deemed to be interested in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.

2. China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. Everbright Group holds long position in 1,782,965,000 H shares of the Bank directly. China Everbright Holdings Company Limited holds 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI. China Everbright Holdings Company Limited is wholly-owned by Everbright Group, while 55.67% of the issued share capital of Everbright Group is held by CHI. In accordance with the HKSFO, China Reinsurance (Group) Corporation is deemed to hold interest in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while Everbright Group is deemed to hold interest in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to hold interest in a total of 3,773,385,000 H shares of the Bank.

3. Everbright Group directly holds a long position in 13,586,625,426 A shares of the Bank. Everbright Group is deemed to hold interest in a long position in a total of 1,789,292,126 A shares of the Bank held by its following subsidiaries:

   (1) China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.

   (2) Meiguang Enyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.

   (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.

   (4) Everbright Financial Holding Asset Management Co., Ltd. holds a long position of 60,400,000 A shares of the Bank.

   Therefore, Everbright Group directly and indirectly holds a long position of 15,375,917,552 A shares of the Bank in total.

   CHI directly holds a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly holds a long position of 413,094,619 and 629,693,300 A shares of the Bank respectively. As far as the Bank is aware, the entire issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of Everbright Group were held by CHI. In accordance with the HKSFO, CHI was deemed to hold interest in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,586,625,426 A shares held by Everbright Group. Therefore, CHI directly and indirectly held a long position in 26,669,621,565 A shares of the Bank in total.

4. As at 30 June 2018, the total share capital issued of the Bank was 52,489,215,996 shares, including 39,810,480,496 A shares and 12,678,735,500 H shares.

5. The percentage of shareholdings is calculated by rounding to two decimal places.

Save as disclosed above, as at 30 June 2018, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSFO, or which were recorded in the register required to be kept by the Bank under section 336 of the HKSFO.

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

As at 30 June 2018, as far as the directors and supervisors of the Bank are aware, none of the directors, supervisors nor the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Divisions 7 and 8 of Part XV of the HKSFO) which were required to be recorded in the register required to be kept and notified to the Bank and HKEX under section 352 of the HKSFO, or which were required to be notified to the Bank and HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* (hereinafter referred to as "*Model Code*") set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Shares Capital and Shareholders

I. Issuance and Listing of Preference Shares

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

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

(i) Everbright P1 (Code 360013)

Unit: Share, %

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

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

Changes in Preference Shares Capital and Shareholders

(ii) Everbright P2 (Code 360022)

Unit: Share, %

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

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

III. Profit Distribution of Preference Shares

As reviewed and approved by the 21st Meeting of the Seventh Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of the first tranche under the issuance of preference shares (Everbright P1) on 25 June 2018. The total dividends of RMB1,060 million (before tax) were distributed with a dividend rate of 5.30% (before tax).

As reviewed and approved by the 25th Meeting of the Seventh Session of the Board of Directors of the Bank, dividends were distributed to shareholders of the second tranche under the issuance of preference shares (Everbright P2) on 13 August 2018. The total dividends of RMB390 million (before tax) were distributed with a dividend rate of 3.90% (before tax).

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

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

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

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

Issuance of Convertible Corporate Bonds

I. Overview

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30,000 million and the net funds stood at some RMB29,923 million after deducting the issuance expense. On 5 April 2017, the above-mentioned A share convertible bonds were listed on Shanghai Stock Exchange (SSE) (bond name: Everbright Convertible Bonds, stock code: 113011).

II. Convertible Bondholders and Guarantors during the Reporting Period

Unit: RMB, %

Convertible bond holders at the period end	6,766	
Guarantors of convertible bonds of the Bank	Nil	
Top ten convertible bond holders	**Par value of bond held at period end**	**Percentage of bonds held**
China Everbright Group Ltd.	8,709,153,000	29.03
Specific account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China (ICBC))	2,159,106,000	7.20
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Minsheng Bank (CMBC))	2,117,240,000	7.06
Anbang Asset Management—China Merchants Bank (CMB)—Anbang Asset—Gongying No.3 Collective Asset Management Product	1,956,305,000	6.52
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of China (BOC))	1,605,878,000	5.35
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank Co., Ltd.)	946,693,000	3.16
Anbang Asset Management—CMBC—Anbang Asset—Shengshi Jingxuan No.2 Collective Asset Management Product	937,198,000	3.12
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank (CCB))	907,917,000	3.03
Anbang Asset Management—CMBC—Anbang Asset—Wenjian Jingxuan No.1 Collective Asset Management Product (Phase V)	775,098,000	2.58
Specific account for collateralized bond repurchase in the securities depository and clearing system (Agricultural Bank of China (ABC))	769,955,000	2.57

III. Changes in Convertible Bonds

For the A share convertible bonds issued by the Bank, the commencement date of the conversion period was 18 September 2017, i.e. the first trading day after six months from the completion of the issuance; and the ending date will be 16 March 2023, i.e. the bond maturity date. During the reporting period, a total of RMB520,000 "Everbright Convertible Bonds" were converted into A shares, and the accumulated converted shares reached 120,996 shares.

IV. Previous Adjustments of Conversion Price

On 26 July 2018 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2017. In accordance with the applicable provisions in the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the Everbright Convertible Bonds saw its initial conversion price adjusted from RMB4.31 per share to RMB4.13 per share since 27 July 2018 (the ex-dividend date). Pricing adjustments of conversion are set out in the table below.

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website, website of the Bank	Due to profit distribution for ordinary A shares for 2016
26 December 2017	4.31	22 December 2017	The same as above	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	The same as above	Due to profit distribution for ordinary A shares for 2017
Conversion price as of the disclosure day of this report				4.13

V. The Bank's Outstanding Debts, Creditworthiness and Availability of Cash for Repayment of Debts in Future Years

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin Securities Rating Co., Ltd. (hereinafter referred to as "China Chengxin" for short) to track and rate the credit standing of its A share convertible bonds issued in March 2017. China Chengxin issued the *Tracking Rating Report of China Everbright Bank Company Limited on A Share Convertible Corporate Bonds (2018)*, maintaining the credit rating of the Bank's bond as AAA with a stable prospect and the credit rating of the bond issuer as AAA, incurring no change. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt service.

Directors, Supervisors, Senior Management, Staff, Branches and Outlets

I. None of the current Directors, Supervisors or Senior Management or those left office during the reporting period held shares or share options of the Bank, or were granted restricted shares of the Bank during the reporting period.

II. Profile of Directors, Supervisors and Senior Management

As at the disclosure day of this report, the Board of Directors consisted of 13 directors, including 1 Executive Director (Ms. Li Jie), 6 Non-Executive Directors (Mr. Li Xiaopeng, Mr. Cai Yunge, Mr. Fu Dong, Mr. Shi Yongyan, Mr. He Haibin, and Mr. Zhao Wei), and 6 Independent Non-Executive Directors (Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun, and Mr. Wang Liguo).

As at the disclosure day of this report, the Board of Supervisors has 9 Supervisors, including 3 Shareholder Supervisors (Mr. Li Xin, Mr. Yin Lianchen, and Mr. Wu Junhao), 3 External Supervisors (Mr. Yu Erniu, Mr. Wu Gaolian, and Mr. Wang Zhe), and 3 Employee Supervisors (Mr. Sun Xinhong, Mr. Jiang Ou, and Ms. Huang Dan).

As at the disclosure day of this report, the Senior Management was composed of 8 members. They are Mr. Zhang Huayu, Ms. Li Jie, Mr. Lu Hong, Mr. Wu Jian, Mr. Yao Zhongyou, Mr. Huang Haiqing, Mr. Sun Qiang, and Mr. Li Jiayan.

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

(i) Appointment and Resignation of Directors

1. On 15 March 2018, the former CBRC approved Mr. Fu Dong to serve as Director of the Bank.

2. On 16 March 2018, the former CBRC approved Mr. Li Xiaopeng to serve as Director and Chairman of the Board of Directors of the Bank.

3. On 9 April 2018, due to job assignment, Mr. Gao Yunlong resigned from the positions of Vice Chairman of the Board of Directors, Non-Executive Director, and Chairman and member of the Strategy Committee of the Board of Directors of the Bank.

4. On 10 April 2018, due to job assignment, Mr. Ma Teng resigned from the positions of Executive Director and member of the Strategy Committee of the Board of Directors of the Bank.

5. On 21 May 2018, the CBIRC approved Mr. Shi Yongyan to serve as Director of the Bank.

6. On 21 May 2018, the CBIRC approved Mr. He Haibin to serve as Director of the Bank.

7. On 21 June 2018, Mr. Li Huaqiang resigned from the positions of Non-executive Director, member of Strategy Committee and member of Audit Committee of the Board of Directors of the Bank for the reason of his age.

8. On 13 August 2018, Mr. Zhang Shude resigned from the positions of Non-executive Director, Chairman and member of Risk Management Committee, member of Strategy Committee and member of the Remuneration Committee of the Board of Directors of the Bank for family reason.

9. On 22 August 2018, Mr. Zhang Jinliang resigned from the positions of Executive Director, Chairman and member of Inclusive Finance Development Committee and Consumer Rights and Interests Protection Committee, member of the Strategy Committee and Risk Management Committee of the Board of Directors due to job arrangement.

(ii) Appointment and Resignation of Supervisors

There was no newly appointed or resigned supervisor during the reporting period.

(iii) Appointment and Resignation of Senior Management Members

1. On 10 January 2018, the former CBRC approved Mr. Li Jiayan to serve as Secretary to the Board of Directors of the Bank.

2. On 15 March 2018, the former CBRC approved Mr. Sun Qiang to serve as Executive Vice President of the Bank.

3. On 10 April 2018, Mr. Ma Teng resigned from the position of Executive Vice President of the Bank.

4. On 22 August 2018, Mr. Zhang Jinliang resigned from the position of President of the Bank.

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

1. Ms. Li Jie, Executive Director of the Bank, started to concurrently serve as Executive Director of Everbright Technology Co., Ltd.

2. Mr. Shi Yongyan, Non-Executive Director of the Bank, started to concurrently serve as Director of China Everbright Group Limited.

3. Mr. He Haibin, Non-Executive Director of the Bank, started to concurrently serve as Member of the Standing Committee of the CPC Committee, Chief Accountant and Secretary to the Board of Directors of Overseas Chinese Town Holdings Company, Chairman of Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd., Chairman of Overseas Chinese Town (HK) Company Limited, Board Chairman of Overseas Chinese Town (Asia) Holdings Limited, and Vice Chairman of Huaneng Capital Services Co., Ltd.

4. Mr. Zhao Wei, Non-Executive Director of the Bank, started to concurrently serve as Party Secretary of China Re Asset Management Company Ltd. and ceased to serve as its Vice Chairman and General Manager.

5. Mr. Xie Rong, Independent Non-executive Director of the Bank, started to concurrently serve as Independent Director of Baoshan Iron & Steel Co., Ltd. and ceased to serve as Director of SAIC Motor Corporation Limited and Shanghai Electric (Group) Corporation.

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

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

VI. Basic Information on Staff and Business Outlets

As at the end of the reporting period, the Bank had 43,089 employees (excluding those of subsidiaries).

As at the end of the reporting period, the Bank had 1,211 domestic branches and outlets, which consisted of 39 tier-1 branches, 89 tier-2 branches, and 1,083 outlets, representing an increase of 15 branches and outlets over the end of the previous year. The Bank has established 3 overseas branches which are Hong Kong Branch, Seoul Branch and Luxembourg Branch.

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

Name	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	6,255	2,910,165	Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	69	2,740	474,343	No. 1, Xuanwumen Nei Street, Xicheng District, Beijing
Shanghai Branch	56	1,793	238,565	No. 1118, Pudong Avenue, Pudong New District, Shanghai
Tianjin Branch	34	1,036	75,007	Annex Building of Zhonglian Building, No. 83, Qufu Avenue, Heping District, Tianjin City
Chongqing Branch	27	903	83,880	No. 168, Minzu Road, Yuzhong District, Chongqing City
Shijiazhuang Branch	53	1,300	101,390	No. 56, Yuhua East Road, Shijiazhuang City
Taiyuan Branch	34	1,039	90,913	No. 295, Yingze Street, Taiyuan City
Huhhot Branch	18	564	40,946	Tower D, Dongfangjunzuo, Chilechuan Road, Saihan District, Huhhot
Dalian Branch	24	690	38,962	No. 4, Wuwu Road, Zhongshan District, Dalian City
Shenyang Branch	36	1,183	70,055	No. 156, Hepingbei Street, Heping District, Shenyang City
Changchun Branch	35	895	52,269	No. 2677, Jiefang Road, Changchun City
Heilongjiang Branch	38	1,027	39,323	No. 278, Dongdazhi Street, Nangang District, Harbin City
Nanjing Branch	46	1,401	192,257	No. 120, Hanzhong Road, Nanjing City
Suzhou Branch	20	868	79,281	No. 188, Xinghai Street, Industrial Park District, Suzhou City
Wuxi Branch	8	317	76,704	No. 1, Renmin Middle Road, Wuxi City
Hangzhou Branch	36	1,231	143,340	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City
Ningbo Branch	19	719	57,050	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City
Hefei Branch	50	1,348	132,968	No. 200, Changjiang West Road, Hefei City
Fuzhou Branch	39	1,256	68,958	No.1 Zhengxiang Center, 153 Wuyi North Road, Shuibu Subdistrict, Gulou District, Fuzhou City
Xiamen Branch	16	511	57,069	China Everbright Bank Building, No. 81, Hubin South Road, Xiamen City
Nanchang Branch	25	672	58,238	No. 399, Guangchang South Road, Nanchang City
Ji'nan Branch	32	920	57,324	No. 85, Jingqi Road, Ji'nan City
Qingdao Branch	34	1,044	81,893	No. 69, Hongkong West Road, Qingdao City

Name	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Yantai Branch	14	475	35,773	No. 111, South Street, Yantai City
Zhengzhou Branch	46	1,335	91,231	No. 18, Nongye Road, Zhengzhou City
Wuhan Branch	35	998	72,880	No. 143-144, Yanjiang Avenue, Jiang'an District, Wuhan City
Changsha Branch	57	1,375	99,672	No. 142, Section 3 of Furong Middle Road, Tianxin District, Changsha City
Guangzhou Branch	85	2,372	169,593	No. 685, Tianhe North Road, Guangzhou
Shenzhen Branch	50	1,190	219,173	No. 18, Intersection of Zizhu Seven Street and Zhuzilin Four Road, Shenzhen City
Nanning Branch	28	865	58,256	Oriental Manhattan Plaza, No. 52-1, Jinhu Road, Nanning City
Haikou Branch	22	751	51,186	Ground Floor, World Trade Center D/E, Shimao East Road, Jinmao District, Haikou City
Chengdu Branch	27	882	86,636	No. 79, Dacisi Road, Chengdu City
Kunming Branch	23	713	37,169	No. 28, Renmin Middle Road, Kunming City
Xi'an Branch	37	1,079	62,657	No. 33, Hongguang Street, Xi'an City
Urumqi Branch	7	184	10,350	No. 165, Nanhu East Road, Urumqi City
Guiyang Branch	11	345	25,649	West Tower No.3, Guiyang International Financial Center at east of Changling North Road and north of Lincheng East Road, Guanshan Lake District, Guiyang City
Lanzhou Branch	12	308	16,361	No. 555, Donggang West Road, Chengguan District, Lanzhou City
Yinchuan Branch	4	135	4,408	No. 219, Jiefang West Road, Xingqing District, Yinchuan City
Xining Branch	2	81	4,016	No. 57-7, Wusi West Road, Chengxi District, Xining City
Lhasa Branch	2	54	862	No. 1, Floor 1 of Building 1, Taihe International Culture Square, 7 Jinzhu Mid-Road, Chengguan District, Lhasa City
Hong Kong Branch	1	164	120,537	30/F, Far East Finance Center, No. 16, Harcourt Road, Hong Kong
Seoul Branch	1	33	8,038	23/F, Wing Fung Building, 41 Cheonggyecheon Road, Jongno-gu, Seoul, Korea
Luxembourg Branch	1	31	16,028	10, Avenue Emile Reuter, Luxembourg
Adjustment on consolidation			(2,192,964)	
Total	1,215	43,082	4,218,411	

Notes:

1. The employees of the Head Office of the Bank included 2,834 staff members in the Credit Card Center and 1,614 staff members in the Remote Banking Center.

2. The number of employees of the Bank includes 7 staff members with Sydney Branch (in preparation).

3. The number of outlets, the employees and the total assets listed in the above table excluded those of the subsidiaries of the Bank.

Corporate Governance

I. Overview of Corporate Governance

During the reporting period, the Board of Directors of the Bank took an active part in recheck and improve strategic planning, reviewed and approved the *Medium and Long-term Development Strategy (2018-2027)*, specified the transformation direction towards "comprehensive, light, featured and digital" operations, and put forward the visions of "building a first-class wealth management bank" on the basis of deeply analyzing the external environment and its own strengths and disadvantages. Following the requirements of newly issued regulations on asset management, the Bank promoted the smooth transformation of its asset management business, and supported management to apply for setting up an asset management subsidiary. It earnestly implemented relevant requirements of the *Measures for Equity Management of Commercial Banks (Provisional)*, by further strengthening management of related party transactions and strictly reviewing major related party transactions. Based on the changes in directors, the composition of certain special committees under the Board of Directors is timely adjusted and the newly established Inclusive Finance Development and Consumer Rights and Interests Protection Committee started operation.

The Board of Supervisors of the Bank continued to carry out the annual evaluation on duty performance of the Board of Directors and its members, the Senior Management and supervisors. It reviewed regular reports of the Bank and fulfilled its duties of financial supervision. It also conducted surveys on internal control and compliance as well as risk management to strengthen supervision over internal control and risk management, and organized supervisors to attend trainings to enhance its duty performance.

The corporate governance practice of the Bank did not deviate from the Company Law or relevant regulations of CSRC, CBIRC or HKEX.

II. Shareholders' Meetings

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

On 28 February 2018, the Bank convened the 2018 First Extraordinary General Meeting and the 2018 First A Shareholders' Class Meeting, the 2018 First H Shareholders' Class Meeting, and the 2018 First Preference Shareholders' Class Meeting, reviewing and approving 4 proposals on the election of Non-Executive Directors, the re-authorization of the Board of Directors to handle domestic non-public issuance of preference shares, etc..

On 22 June 2018, the Bank convened the 2017 Annual General Meeting, reviewing and approving 10 proposals on the work report of the Board of Directors, the work report of the Board of Supervisors, the final accounts report and financial budget plan, the profit distribution plan, the re-engagement of accounting firm, the remuneration for Directors and Supervisors, the establishment of independent legal entity for asset management business, and the non-executive director election, etc., and hearing 2 reports. Directors Li Xiaopeng, Cai Yunge, He Haibin, Zhao Wei, Qiao Zhimin, Fok Oi Ling Catherine, Xu Hongcai, Feng Lun and Wang Liguo were absent from the meeting due to other business.

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

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

During the reporting period, the Board of Directors of the Bank held 8 meetings, including 5 on-site meetings, namely the 18th, 19th, 20th, 21st and 22nd meetings of the Seventh Session of the Board of Directors, and 3 meetings via written resolutions, namely the 17th, 23rd and 24th meetings of the Seventh Session of the Board of Directors. The Board of Directors considered 48 proposals in total and heard 10 reports, effectively playing its role in scientific decision-making.

The special committees under the Board of Directors convened 17 meetings in total, including 2 meetings of the Strategy Committee, 2 meetings of the Audit Committee, 2 meetings of the Risk Management Committee, 4 meetings of the Nomination Committee, 2 meetings of the Remuneration Committee, 4 meetings of the Related Party Transaction Control Committee, and 1 meeting of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The special committees considered 37 proposals in total and heard and studied 15 special reports.

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

During the reporting period, the Board of Supervisors of the Bank convened 4 meetings, including 2 on-site meetings, namely the 11th and 12th meetings of the Seventh Session of the Board of Supervisors, and 2 meetings by written resolutions, namely the 10th and 13th meetings of the Seventh Session of the Board of Supervisors. The Board of Supervisors considered a total of 17 proposals and heard 7 reports, effectively performing its supervisory duty.

The special committees of the Board of Supervisors convened 4 meetings in total, including 2 meetings of the Supervision Committee and 2 meetings of the Nomination Committee, and considered 10 proposals in total.

V. Information Disclosure

During the reporting period, the Bank published the 2018 Interim Report and 2018 First Quarterly Report as scheduled to fully disclose the operations and management of the Bank to domestic and foreign investors. Pursuant to the regulatory rules for information disclosure, 61 provisional announcements (including non-announcement online documents) were published on the SSE, and 86 provisional announcements (including overseas regulatory announcements) were published on the HKEX. The Bank continued to strengthen the management of insiders to prevent leakage of sensitive information, ensuring the rights of investors to fair access to the information of the Bank.

VI. Investor Relations

During the reporting period, the Bank held the 2017 annual results (A+H shares) announcement and press conference for investors and domestic and overseas media in Beijing and Hong Kong via video connection, which were attended by over 100 institutional investors, bank analysts and media correspondents from home and abroad. The Bank actively participated in the "2018 Collective Reception Day for Investors of Listed Companies in Beijing", answering questions from investors. 21 visits and on-site investigations were arranged for 131 domestic and overseas investment bank analysts and institutional investors. The Bank attended over 9 investment strategy seminars, answering questions from 205 investors. Over 250 phone calls were answered and over 200 enquiry emails from domestic and overseas investors were replied, and interaction with investors was made via "SSE e-interaction" and other interactive platforms. The Bank's website in both Chinese and English versions was updated constantly to keep investors well informed about the Bank. In addition, the Bank actively interacted with minority shareholders participating in the Shareholder's General Meeting and addressed their concerns.

VII. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the standards set out in the *Model Code* in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for securities transactions by Directors and Supervisors of the Bank. Upon enquiry, all Directors and Supervisors have confirmed that they have complied with the *Model Code* during the six months ended 30 June 2018. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less exacting than the *Model Code*. It has not come to the attention of the Bank that any employee was in breach of the guidelines.

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

During the six months ended June 30, 2018, the Bank has applied the principles of the *Corporate Governance Code* contained in Appendix 14 to the Hong Kong Listing Rules. All the code provisions were complied with save for those disclosed in this section.

Report on Review of Interim Financial Information

To the Board of Directors of China Everbright Bank Company Limited
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim financial information set out on pages 66 to 187, which comprises the condensed consolidated statement of financial position of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
28 August 2018

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2018	2017
Interest income		81,094	78,699
Interest expense		(53,755)	(48,316)
Net interest income	1	27,339	30,383
Fee and commission income		19,680	16,948
Fee and commission expense		(1,304)	(956)
Net fee and commission income	2	18,376	15,992
Net trading gains/(losses)	3	2,284	(1,330)
Dividend income		8	–
Net gains/(losses) arising from investment securities	4	6,250	(76)
Net foreign exchange (losses)/gains		(2,235)	1,140
Other operating income		281	276
Operating income		52,303	46,385
Operating expenses	5	(16,075)	(14,351)
Operating profit before impairment		36,228	32,034
Impairment losses on assets	6	(14,568)	(10,030)
Profit before tax		21,660	22,004
Income tax	7	(3,559)	(5,032)
Net profit		18,101	16,972
Net profit attributable to:			
Equity shareholders of the Bank		18,075	16,939
Non-controlling interests		26	33
		18,101	16,972
Earnings per share			
Basic earnings per share (in RMB)	8	0.32	0.34
Diluted earnings per share (in RMB)	8	0.29	0.32

The notes on pages 73 to 187 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Comprehensive Income

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

		For the six months ended 30 June	
	Note III	2018	2017
Net profit		18,101	16,972
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		3	–
– Related income tax effect	27(b)	(1)	–
Subtotal		2	–
Items that will be reclassified subsequently to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		1,068	–
– Changes in allowance for expected credit losses		(350)	–
– Reclassified to the profit or loss upon disposal		210	–
– Related income tax effect	27(b)	(286)	–
– Available-for-sale financial assets			
– Net change in fair value		–	(1,959)
– Reclassified to the profit or loss upon disposal		–	147
– Related income tax effect		–	453
– Exchange differences on translation of financial statements		16	(29)
Subtotal		658	(1,388)
Other comprehensive income, net of tax		660	(1,388)
Total comprehensive income		18,761	15,584
Total comprehensive income attributable to:			
Equity shareholders of the Bank		18,735	15,551
Non-controlling interests		26	33
		18,761	15,584

The notes on pages 73 to 187 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2018	31 December 2017
Assets			
Cash and deposits with the central bank	9	376,711	353,703
Deposits with banks and other financial institutions	10	24,024	44,754
Precious metals		27,722	40,352
Placements with banks and other financial institutions	11	151,800	148,816
Financial assets at fair value through profit or loss	12	258,970	24,196
Derivative financial assets	13	10,195	4,513
Financial assets held under resale agreements	14	62,454	91,441
Interests receivable	15	29,506	28,576
Loans and advances to customers	16	2,174,647	1,980,818
Finance lease receivables	17	61,052	56,364
Debt instruments at fair value through other comprehensive income	18	145,529	–
Equity instruments at fair value through other comprehensive income	19	112	–
Financial investments measured at amortised cost	20	900,373	–
Available-for-sale financial assets	21	–	414,547
Held-to-maturity investments	22	–	344,617
Debt securities classified as receivables	23	–	514,576
Fixed assets	25	15,068	14,929
Goodwill	26	1,281	1,281
Deferred tax assets	27	9,963	7,596
Other assets	28	33,870	17,164
Total assets		4,283,277	4,088,243
Liabilities and equity			
Liabilities			
Due to the central bank		252,000	232,500
Deposits from banks and other financial institutions	30	605,333	577,447
Placements from banks and other financial institutions	31	159,107	106,798
Financial liabilities at fair value through profit or loss		16	–
Derivative financial liabilities	13	9,851	6,552
Financial assets sold under repurchase agreements	32	34,604	45,581
Deposits from customers	33	2,435,534	2,272,665
Accrued staff costs	34	8,595	8,412
Taxes payable	35	3,644	4,932
Interests payable	36	38,971	40,206
Debt securities issued	37	377,995	445,396
Other liabilities	38	52,762	42,318
Total liabilities		3,978,412	3,782,807

The notes on pages 73 to 187 form part of these financial statements.

	Note III	30 June 2018	31 December 2017
Equity			
Share capital	39	52,489	52,489
Other equity instrument	40	35,108	35,108
Capital reserve	41	53,533	53,533
Other comprehensive income	42	(460)	(1,845)
Surplus reserve	43	21,054	21,054
General reserve	43	52,258	52,257
Retained earnings		90,197	92,164
Total equity attributable to equity shareholders of the Bank		304,179	304,760
Non-controlling interests		686	676
Total equity		304,865	305,436
Total liabilities and equity		4,283,277	4,088,243

Approved and authorised for issue by the board of directors on 28 August 2018.

Li Xiaopeng Chairman of the Board of Directors, Non-executive Director	Xie Rong Independent Non-executive Director

The notes on pages 73 to 187 form part of these financial statements.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note III	Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 31 December 2017		52,489	35,108	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		–	–	–	725	–	–	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	35,108	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the period:											
Net income		–	–	–	–	–	–	18,075	18,075	26	18,101
Other comprehensive income	42	–	–	–	660	–	–	–	660	–	660
Appropriation of profit:	44										
– Appropriation to general reserve		–	–	–	–	–	1	(1)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	(9,501)	(9,501)	–	(9,501)
– Dividends to preference shareholders		–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Balance at 30 June 2018		52,489	35,108	53,533	(460)	21,054	52,258	90,197	304,179	686	304,865
Balance at 1 January 2017		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the period:											
Net income		–	–	–	–	–	–	16,939	16,939	33	16,972
Other comprehensive income		–	–	–	(1,388)	–	–	–	(1,388)	–	(1,388)
Equity of convertible bonds		–	5,161	–	–	–	–	–	5,161	–	5,161
Appropriation of profit:											
– Appropriation to general reserve		–	–	–	–	–	1	(1)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	(4,575)	(4,575)	(3)	(4,578)
– Dividends to preference shareholders		–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Balance at 30 June 2017		46,679	35,108	33,365	(879)	17,951	51,448	81,860	265,532	643	266,175

		Attributable to equity shareholders of the Bank									
	Note III	Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 1 January 2017		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the year:											
Net income		–	–	–	–	–	–	31,545	31,545	66	31,611
Other comprehensive income	42	–	–	–	(2,354)	–	–	–	(2,354)	–	(2,354)
Capital injection by ordinary shareholders		5,810	–	20,168	–	–	–	–	25,978	–	25,978
Equity component of convertible bonds		–	5,161	–	–	–	–	–	5,161	–	5,161
Appropriation of profit:	44										
– Appropriation to surplus reserve		–	–	–	–	3,103	–	(3,103)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	810	(810)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	(4,575)	(4,575)	(3)	(4,578)
– Dividends to preference shareholders		–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2017		52,489	35,108	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436

The notes on pages 73 to 187 form part of these financial statements.

Unaudited Condensed Consolidated Cash Flow Statement

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

	For the six months ended 30 June	
	2018	2017
Cash flows from operating activities		
Net profit	18,101	16,972
Adjustments for:		
Impairment losses on assets	14,568	10,030
Depreciation and amortisation	1,059	1,065
Unwinding of discount	(473)	(468)
Dividend income	(8)	–
Unrealised foreign exchange (gains)/losses	(112)	222
Net (gains)/losses on disposal of investment securities	(6,250)	76
Net gains on disposal of trading securities	(548)	(7)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(1,736)	1,337
Interest expense on debt securities issued	9,708	9,982
Net losses on disposal of fixed assets	3	2
Income tax	3,559	5,032
	37,871	44,243
Changes in operating assets		
Net decrease in deposits with the central bank, banks and other financial Institutions	38,421	55,013
Net (increase)/decrease in placements with banks and other financial institutions	(2,269)	17,854
Net increase in loans and advances to customers	(215,875)	(174,668)
Net decrease/(increase) in financial assets held under resale agreements	28,979	(30,264)
Net increase in other operating assets	(9,316)	(23,993)
	(160,060)	(156,058)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	27,886	(310,988)
Net increase in placements from banks and other financial institutions	52,309	26,265
Net decrease in financial assets sold under repurchase agreements	(10,985)	(27,122)
Net increase in amount due to central bank	19,500	30,500
Net increase in deposits from customers	162,869	150,416
Income tax paid	(4,954)	(6,229)
Net (decrease)/increase in other operating liabilities	(2,924)	8,874
	243,701	(128,284)
Net cash flows from operating activities	121,512	(240,099)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	629,905	434,722
Dividends received	8	–
Proceeds from disposal of fixed assets and other assets	57	19
Payments on acquisition of investments	(630,007)	(363,678)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(1,100)	(1,118)
Net cash flows from investing activities	(1,137)	69,945

The notes on pages 73 to 187 form part of these financial statements.

Unaudited Condensed Consolidated Cash Flow Statement

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

		For the six months ended 30 June	
	Note III	2018	2017
Cash flows from financing activities			
Net proceeds from issue of new debt securities		–	123,667
Net repayments of debts issued		(67,401)	–
Interest paid on debt securities issued		(10,956)	(10,707)
Dividends paid		(1,060)	(1,060)
Net cash flows from financing activities		(79,417)	111,900
Effect of foreign exchange rate changes on cash and cash equivalents		792	(1,906)
Net increase/(decrease) in cash and cash equivalents	48(a)	41,750	(60,160)
Cash and cash equivalents as at 1 January		147,923	241,507
Cash and cash equivalents as at 30 June	48(b)	189,673	181,347
Interest received		78,137	76,850
Interest paid (excluding interest expense on debt securities issued)		(44,025)	(36,888)

The notes on pages 73 to 187 form part of these financial statements.

Notes to the Unaudited Condensed Consolidated Financial Statements

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

I BACKGROUND INFORMATION

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

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

The principal activities of the Bank and its subsidiaries (Note III 24) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the former CBRC. The Bank mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 31 provinces, autonomous regions, municipalities in mainland China, Hong Kong, Seoul in South Korea and Luxembourg as at 30 June 2018.

These financial statements have been approved by the Board of Directors on 28 August 2018.

II BASIS OF PREPARATION

1 Compliance with International Financial Reporting Standards ("IFRSs")

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2017.

2 Use of estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (continued)

3 Significant accounting policies

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Share-based Payment*
IFRS 4 Amendments	*Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*
IFRS 15 and Amendments	*Revenue from Contracts with Customers*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016)	
IAS 28	*Investments in Associates and Joint Ventures*

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

On October 2017, the International Accounting Standards Board issued an amendment to IFRS 9 – Financial Instruments. This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 amendments from 1 January 2018.

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains from investment securities which are covered under IFRS 9.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Annual Improvements to IFRSs 2014-2016 cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments of IAS 28 – Investments in Associates and Joint Ventures clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Except for the adoption of the IFRS 9, the adopting of the above standards, amendments and interpretations does not have any significant impact on the operation results, financial position and comprehensive income of the Group.

3.1.1 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments which reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 Financial Instruments for annual periods on or after 1 January 2018.

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 retained earnings and other comprehensive income at the adoption date, but didn't restate comparative periods.

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

3.1.1 IFRS 9 – Financial Instruments (continued)

Classification and Measurement

In IFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of 'other' business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit loss model" (ECL model) and this way of measurement applies to financial assets measured at amortised cost, debt instruments measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts, refer to Note III 51(a).

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

3.1.1 IFRS 9 – Financial Instruments (continued)

(a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows:

	IAS 39				IFRS 9	
	Classification (Note(i))	Net Balance	Re-classification	Re-measurement	Net Balance	Classification (Note(i))
Deposits with banks and other financial institutions	L&R	44,754	–	(3)	44,751	AC
Placements with banks and other financial institutions	L&R	148,816	–	(214)	148,602	AC
Financial assets held under resale agreements	L&R	91,441	–	(3)	91,438	AC
Loans and advances to customers	L&R	1,980,818	–	(7,114)	1,973,704	AC/FVOCI
Loans and advances to to customers measured at amortised cost		1,980,818	(54,486)	(6,833)	1,919,499	AC
To: Loans and advances to customers at fair value through other comprehensive income			54,486	(281)	54,205	FVOCI
Financial lease receivables	L&R	56,364	–	(207)	56,157	AC
Financial assets at fair value through profit or loss	FVTPL	24,196	288,918	935	314,049	FVTPL
From: Available-for-sale financial assets			271,363	1,473	272,836	
From: Held-to-maturity Investments			2,341	(54)	2,287	
From: Debt securities classified as receivables			15,214	(484)	14,730	
Debt instruments at fair value through other comprehensive income	N/A	–	142,459	5	142,464	FVOCI
From: Available-for-sale financial assets			142,459	5	142,464	
Equity instruments at fair value through other comprehensive income	N/A	–	109	–	109	FVOCI
From: Available-for-sale financial assets			109	–	109	
Financial investments measured at amortised cost	N/A	–	842,254	(1,295)	840,959	AC
From: Available-for-sale financial assets			616	32	648	
From: Held-to-maturity investments			342,276	(150)	342,126	
From: Debt securities classified as receivables			499,362	(1,177)	498,185	
Available-for-sale financial assets	AFS	414,547	(414,547)	–	–	N/A
To: Debt instruments at fair value through other comprehensive income			(142,459)			
To: Equity instruments at fair value through other comprehensive income			(109)			
To: Financial assets at fair value through profit or loss			(271,363)			
To: Financial investments measured at amortised cost			(616)			

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

3.1.1 IFRS 9 – Financial Instruments (continued)

(a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows (continued):

	IAS 39				IFRS 9	
	Classification (Note(i))	Net Balance	Reclassification	Remeasurement	Net Balance	Classification (Note(i))
Held-to-maturity investments	HTM	344,617	(344,617)	–	–	N/A
To: Financial assets at fair value through profit or loss			(2,341)			
To: Financial investments measured at amortised cost			(342,276)			
Debt securities classified as receivables	L&R	514,576	(514,576)	–	–	N/A
To: Financial assets at fair value through profit or loss			(15,214)			
To: Financial investments measured at amortised cost			(499,362)			
Other liabilities/Provisions		317	–	1,500	1,817	
Tax payable		4,932	–	(576)	4,356	
Others (Note(ii))	FVTPL/L&R	76,524	–	49	76,573	FVTPL/AC

Note:

(i)
L&R Loans and receivables
AFS Available-for-sale
FVTPL Fair value through profit or loss
FVOCI Fair value through other comprehensive income
AC Amortised cost
HTM Held-to-maturity
N/A Not applicable

(ii) Others include precious metals, interests receivable and deferred tax assets.

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

3.1.1 IFRS 9 – Financial Instruments (continued)

(b) A reconciliation between the impairment allowance for financial instruments under IAS 39 to amount reported under IFRS 9 is, as follows:

	31 December 2017	Reclassification	Remeasurement	1 January 2018
Loans and receivables/financial assets at amortised cost				
Deposits with banks and other financial institutions	(32)	–	(3)	(35)
Precious metals	–	–	(42)	(42)
Placements with banks and other financial institutions	(14)	–	(214)	(228)
Financial assets held under resale agreements	–	–	(3)	(3)
Interests receivable	(52)	–	48	(4)
Loans and advances to customers	(51,238)	–	(6,833)	(58,071)
Debt securities classified as receivables-financial investments at amortised cost	(2,122)	261	(1,177)	(3,038)
Finance lease receivables	(1,365)	–	(207)	(1,572)
Held to maturity investments/financial assets at amortised cost				
Held to maturity investments – financial assets at amortised cost	(101)	–	(150)	(251)
Available-for-sale financial investment/financial assets at amortised cost				
Available-for-sale financial investment-financial assets at amortised cost	(947)	–	32	(915)
Loans and receivables/financial assets at FVOCI				
Loans and advances to customers	–	–	(842)	(842)
Available-for-sale financial assets/financial assets at FVOCI				
Available-for-sale financial investment-debt instruments at FVOCI	(6)	1	(320)	(325)
Credit commitments	(290)	–	(1,497)	(1,787)
Others	(5)	–	(3)	(8)

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (continued)

3 Significant accounting policies (continued)

3.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
IFRS 16	*Leases*	1 January 2019
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IAS 19 Amendments	*Employee Benefits*	1 January 2019
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	1 January 2019
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10, IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Has not yet decided (effective date has been deferred indefinitely)
Annual Improvements to IFRSs 2015-2017 cycle (issued in December 2017)		1 January 2019

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	For the six months ended 30 June 2018	2017
Interest income arising from			
Deposits with the central bank		2,589	2,627
Deposits with banks and other financial institutions		406	2,785
Placements with banks and other financial institutions		3,631	2,438
Loans and advances to customers	(a)		
– Corporate loans and advances		28,915	25,702
– Personal loans and advances		19,088	15,339
– Discounted bills		603	603
Finance lease receivables		1,530	1,326
Financial assets held under resale agreements		1,370	996
Investments	(b)	22,962	26,883
Sub-total		81,094	78,699
Interest expenses arising from			
Due to the central bank		3,987	3,098
Deposits from banks and other financial institutions		12,643	12,873
Placements from banks and other financial institutions		2,595	1,572
Deposits from customers			
– Corporate customers		13,250	12,580
– Individual customers		1,624	1,905
– Structured deposits from corporate customers		5,605	3,577
– Structured deposits from individual customers		3,748	2,154
Financial assets sold under repurchase agreements		595	575
Debt securities issued	(c)	9,708	9,982
Sub-total		53,755	48,316
Net interest income		27,339	30,383

Note:

(a) The interest income arising from impaired financial assets for the period ended 30 June 2018 amounted to RMB473 million (Six months ended 30 June 2017: RMB468 million).

(b) The interest income arising from financial assets at fair value through profit or loss for the period ended 30 June 2018 amounted to RMB753 million (Six months ended 30 June 2017: RMB300 million), which mainly from the interest of debt securities issued at fair value through profit or loss.

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 Net fee and commission income

	For the six months ended 30 June	
	2018	2017
Fee and commission income		
Bank card service fees	13,319	9,420
Agency services fees	1,706	1,561
Underwriting and advisory fees	861	903
Settlement and clearing fees	815	686
Custody and other fiduciary business fees	771	964
Acceptance and guarantee fees	633	481
Wealth management service fees	502	2,256
Others	1,073	677
Sub-total	19,680	16,948
Fee and commission expense		
Bank card transaction fees	762	683
Settlement and clearing fees	58	51
Others	484	222
Sub-total	1,304	956
Net fee and commission income	18,376	15,992

3 Net trading gains/(losses)

	For the six months ended 30 June	
	2018	2017
Trading financial instruments		
– Derivatives	2,174	(1,285)
– Debt securities	50	(140)
Sub-total	2,224	(1,425)
Financial instruments designated at fair value through profit or loss	1	(6)
Precious metals contract	59	101
Total	2,284	(1,330)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 Net gains/(losses) arising from investment securities

	For the six months ended 30 June	
	2018	2017
Net gains arising from financial investments at fair value through profit or loss	6,279	–
Net gains arising from debt instruments at fair value through other comprehensive income	111	–
Net gains arising from loans and advances to customers at fair value through other comprehensive income	79	–
Net losses arising from financial investments measured at amortised cost	(9)	–
Net gains arising from available-for-sale financial assets	–	68
Net revaluation losses reclassified from other comprehensive income on disposal	(210)	(147)
Net gains arising from held-to-maturity investments	–	3
Total	6,250	(76)

5 Operating expenses

	For the six months ended 30 June	
	2018	2017
Staff costs		
– Salaries and bonuses	7,068	6,223
– Pension and annuity	912	759
– Housing allowances	369	331
– Staff welfares	143	140
– Others	953	879
Sub-total	9,445	8,332
Premises and equipment expenses		
– Rental and property management expenses	1,359	1,305
– Depreciation of fixed assets	696	709
– Amortisation of other long-term assets	201	210
– Amortisation of intangible assets	162	146
Sub-total	2,418	2,370
Tax and surcharges	561	543
Other general and administrative expenses	3,651	3,106
Total	16,075	14,351

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Impairment losses on assets

	For the six months ended 30 June 2018
Loans and advances to customers	
– measured at amortised cost	14,759
– measured at at fair value through other comprehensive income	(408)
Sub-total	14,351
Debt instruments at fair value through other comprehensive income	58
Financial investments measured at amortised cost	(106)
Finance lease receivables	(2)
Others	267
Total	14,568

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

7 Income tax

(a) Income tax:

		For the six months ended 30 June	
	Note III	2018	2017
Current tax		4,027	6,030
Deferred tax	27(b)	(306)	(846)
Adjustments for prior year	7(b)	(162)	(152)
Total		3,559	5,032

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7 Income tax (continued)

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

	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Profit before tax		21,660	22,004
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		5,415	5,501
Effect of different tax rates applied by certain subsidiaries		–	–
Non-deductible expenses			
– Staff costs		18	24
– Impairment losses on assets		706	817
– Others		151	28
Sub-total		875	869
Non-taxable income	(i)	(2,569)	(1,186)
Sub-total		3,721	5,184
Adjustments for prior year		(162)	(152)
Income tax		3,559	5,032

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividend of funds.

8 Basic and diluted earnings per ordinary share

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net profit attributable to equity holders of the Bank	18,075	16,939
Less: dividends on preference shares declared	1,060	1,060
Net profit attributable to ordinary shareholders of the Bank	17,015	15,879
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Basic earnings per share (in RMB)	0.32	0.34

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 Basic and diluted earnings per ordinary share (continued)

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

	For the six months ended 30 June	
	2018	2017
Issued ordinary shares as at 1 January	52,489	46,679
add: weighted average number of ordinary shares added for the period	–	–
Weighted average number of ordinary shares in issue	52,489	46,679

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

	For the six months ended 30 June	
	2018	2017
Net profit attributable to ordinary shareholders of the Bank	17,015	15,879
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	429	244
Net profit used to determine diluted earnings per share	17,444	16,123
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,960	4,030
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,449	50,709
Diluted earnings per share (in RMB)	0.29	0.32

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9 Cash and deposits with the central bank

	Note	30 June 2018	31 December 2017
Cash on hand		5,070	5,584
Deposits with the central bank			
– Statutory deposit reserves	(a)	269,972	306,762
– Surplus deposit reserves	(b)	97,218	37,035
– Foreign currency risk reserves	(c)	330	880
– Fiscal deposits		4,121	3,442
Sub-total		371,641	348,119
Total		376,711	353,703

Note:

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

	30 June 2018	31 December 2017
Reserve ratio for RMB deposits	13.5%	14.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

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

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 30 June 2018 and 31 December 2017, the foreign currency risk reserve ratio was 0%.*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Deposits in mainland China		
– Banks	10,478	35,201
– Other financial institutions	331	321
Sub-total	10,809	35,522
Deposits outside mainland China		
– Banks	13,337	9,264
Total	24,146	44,786
Less: Provision for impairment losses	(122)	(32)
Net balances	24,024	44,754

11 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2018	31 December 2017
Placements in mainland China		
– Banks	22,722	23,175
– Other financial institutions	106,156	109,455
Sub-total	128,878	132,630
Placements outside mainland China		
– Banks	23,182	16,200
Total	152,060	148,830
Less: Provision for impairment losses	(260)	(14)
Net balances	151,800	148,816

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 Financial assets at fair value through profit or loss

	Note	30 June 2018	31 December 2017
Debt securities held for trading	(a)	35,957	24,185
Financial assets designated at fair value through profit or loss	(b)	7	11
Other financial assets at fair value through profit or loss	(c)	223,006	–
Total		258,970	24,196

(a) Debt securities held for trading

	Note	30 June 2018	31 December 2017
Issued by the following governments or institutions:			
In mainland China			
– Government		1,302	1,110
– Banks and other financial institutions		5,786	786
– Other institutions	(i)	26,941	21,020
Sub-total		34,029	22,916
Outside mainland China			
– Government		–	128
– Banks and other financial institutions		865	125
– Other institutions		1,063	1,016
Sub-total		1,928	1,269
Total	(ii)	35,957	24,185
Listed	(iii)	3,295	2,017
– of which listed in Hong Kong		1,228	1,662
Unlisted		32,662	22,168
Total		35,957	24,185

Note:

(i) *Debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.*

(ii) *Part of the debt instruments held for trading were pledged for repurchase agreements and time deposits, see Note III 29(a).*

(iii) *Listed includes debt securities traded on the stock exchange markets.*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	30 June 2018	31 December 2017
Fixed interest rate personal mortgage loans	7	11

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

(c) Other financial assets at fair value through profit or loss

	30 June 2018	31 December 2017
Fund investments	205,455	–
Equity investments	1,188	–
Others	16,363	–
Total	223,006	–

13 Derivatives financial instrument

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

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13 Derivatives financial instrument (continued)

(a) Analysed by nature of contract

	30 June 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,437,702	2,746	(2,620)
– Interest rate futures	1,952	5	(1)
Currency derivatives			
– Foreign exchange forward	11,718	151	(192)
– Foreign exchange swap and cross-currency interest rate swap	607,746	7,104	(6,862)
– Foreign exchange option	27,627	189	(176)
Total	2,086,745	10,195	(9,851)

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	317,001	430	(373)
– Interest rate futures	1,633	8	–
Currency derivatives			
– Foreign exchange forward	5,185	109	(73)
– Foreign exchange swap and cross-currency interest rate swap	413,183	3,906	(6,100)
– Foreign exchange option	5,289	60	(6)
Total	742,291	4,513	(6,552)

(b) Analysed by credit risk-weighted amounts

	30 June 2018	31 December 2017
Counterparty default risk-weighted assets		
– Interest rate derivatives	58	83
– Currency derivatives	1,189	946
Credit value adjustment	576	254
Total	1,823	1,283

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

As at 30 June 2018, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In mainland China		
– Banks	8,424	30,740
– Other financial institutions	54,036	60,701
Total	62,460	91,441
Less: Provision for impairment losses	(6)	–
Net balances	62,454	91,441

(b) Analysed by type of security held

	30 June 2018	31 December 2017
Bonds		
– Government bonds	4,976	26,984
– Other debt securities	55,461	64,204
Sub-total	60,437	91,188
Bank acceptances	2,023	253
Total	62,460	91,441
Less: Provision for impairment losses	(6)	–
Net balances	62,454	91,441

15 Interests receivable

	30 June 2018	31 December 2017
Interests receivable from investments	20,995	20,839
Interests receivable from loans and advances to customers	7,264	6,521
Interests receivable from deposits and placements with banks and other financial institutions	459	550
Other interests receivable	792	718
Total	29,510	28,628
Less: Provision for impairment losses	(4)	(52)
Net balances	29,506	28,576

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers

(a) Analysed by nature

	30 June 2018	31 December 2017
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,241,258	1,179,663
Discounted bills	1,503	22,389
Personal loans and advances		
– Personal housing mortgage loans	374,395	367,665
– Personal business loans	131,196	125,558
– Personal consumption loans	78,272	36,165
– Credit cards	350,302	300,616
Sub-total	934,165	830,004
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	33,931	–
Discounted bills	21,825	–
Sub-total	55,756	–
Gross loans and advances to customers	2,232,682	2,032,056
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(58,035)	(51,238)
Net loans and advances to customers	2,174,647	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(434)	–

As at 30 June 2018, part of the above loans and advances to customers was pledged for repurchase agreements, see Note III 29(a).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	252,106	11.29%	77,338
Water, environment and public utility management	220,177	9.86%	104,162
Real estate	162,981	7.30%	95,130
Leasing and commercial services	146,239	6.55%	57,272
Wholesale and retail trade	112,129	5.02%	37,845
Transportation, storage and postal services	95,078	4.26%	40,882
Construction	63,427	2.84%	23,789
Finance	62,491	2.80%	632
Production and supply of electricity, gas and water	42,230	1.89%	10,597
Agriculture, forestry, husbandry and fishery	27,753	1.24%	7,562
Others	90,578	4.07%	37,874
Sub-total of corporate loans and advances	1,275,189	57.12%	493,083
Personal loans and advances	934,165	41.84%	506,115
Discounted bills	23,328	1.04%	19,584
Gross loans and advances to customers	2,232,682	100.00%	1,018,782
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(58,035)		
Net loans and advances to customers	2,174,647		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(434)		

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	241,125	11.87%	73,970
Water, environment and public utility management	209,223	10.30%	104,502
Real estate	142,010	6.99%	87,858
Leasing and commercial services	126,451	6.22%	51,066
Wholesale and retail trade	109,268	5.38%	40,566
Transportation, storage and postal services	91,949	4.52%	39,566
Construction	62,984	3.10%	23,547
Finance	49,780	2.45%	2,054
Production and supply of power, gas and water	42,237	2.08%	9,783
Agriculture, forestry, husbandry and fishery	20,221	1.00%	6,797
Others	84,415	4.14%	37,090
Sub-total of corporate loans and advances	1,179,663	58.05%	476,799
Personal loans and advances	830,004	40.85%	494,936
Discounted bills	22,389	1.10%	17,075
Gross loans and advances to customers	2,032,056	100.00%	988,810
Less: provision for impairment losses			
– Individually assessed	(14,219)		
– Collectively assessed	(37,019)		
Total provision for impairment losses	(51,238)		
Net loans and advances to customers	1,980,818		

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

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

	30 June 2018					
	Impaired loans and advances	Stage 1 (expected credit loss of 12 months)	Stage 2 (expected credit loss of whole period)	Stage 3 (Impaired expected credit loss of whole period)	Impairment charged during the period	Written-off during the period
Manufacturing	11,571	(2,808)	(4,725)	(5,256)	4,789	1,516

	31 December 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	11,111	(7,200)	(7,287)	5,575	1,884
Water, environment and public utility management	1	–	(2,399)	580	–

(c) Analysed by type of collateral

	30 June 2018	31 December 2017
Unsecured loans	692,710	591,866
Guaranteed loans	521,190	451,380
Secured loans		
– By tangible assets other than monetary assets	771,492	754,180
– By monetary assets	247,290	234,630
Gross loans and advances to customers	2,232,682	2,032,056
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(58,035)	(51,238)
Net loans and advances to customers	2,174,647	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(434)	–

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(d) Overdue loans analysed by overdue period

	30 June 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	8,275	6,696	784	35	15,790
Guaranteed loans	6,732	5,831	3,168	527	16,258
Secured loans					
– By tangible assets other than monetary assets	4,657	4,524	5,434	1,553	16,168
– By monetary assets	1,025	401	1,249	141	2,816
Total	20,689	17,452	10,635	2,256	51,032
As a percentage of gross loans and advances to customers	0.93%	0.78%	0.48%	0.10%	2.29%

	31 December 2017				
	Overdue Within Three Months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	5,464	5,852	733	84	12,133
Guaranteed loans	5,077	4,891	4,497	1,236	15,701
Secured loans					
– By tangible assets other than monetary assets	5,452	5,263	7,363	716	18,794
– By monetary assets	488	1,014	1,820	25	3,347
Total	16,481	17,020	14,413	2,061	49,975
As a percentage of gross loans and advances to customers	0.81%	0.84%	0.71%	0.10%	2.46%

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	30 June 2018				
	Stage 1 (expected credit loss of 12 months)	Stage 2 (expected credit loss of whole period)	Stage 3 (Imparied expected credit loss of whole period)	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	2,083,438	115,454	33,790	2,232,682	1.51%
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(22,243)	(16,941)	(18,851)	(58,035)	
Net loans and advances to customers	2,061,195	98,513	14,939	2,174,647	

	31 December 2017				
		Impaired loans and advances			
	Loans and advances for which provision are collectively assessed	for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,999,664	9,607	22,785	2,032,056	1.59%
Less: Provision for impairment losses	(30,768)	(6,251)	(14,219)	(51,238)	
Net loans and advances to customers	1,968,896	3,356	8,566	1,980,818	

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	Note	30 June 2018
As at 1 January 2018	(i)	(58,071)
Charge for the period		(20,918)
Release for the period		6,159
Disposal		9,368
Write-offs		5,624
Recoveries		(668)
Unwinding of discount		473
Exchange rate change and others		(2)
As at 30 June 2018	(i)	(58,035)

Note:

(i) Provision for impairment losses represents provision for impairment losses of loans and advances to customers measured at amortised cost.

(ii) As at 30 June 2018, the balance of provision for impairement losses of loans and advances to customers at fair value throught other comprehensive income is RMB434 million (1 January 2018: RMB842 million).

	31 December 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at 1 January	(28,591)	(3,758)	(11,285)	(43,634)
Charge for the year	(2,392)	(4,458)	(14,087)	(20,937)
Release for the year	215	–	1,022	1,237
Recoveries	–	(638)	(246)	(884)
Unwinding of discount	–	–	1,015	1,015
Disposal	–	–	5,958	5,958
Write-offs	–	2,603	3,404	6,007
As at 31 December	(30,768)	(6,251)	(14,219)	(51,238)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector

	30 June 2018		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	424,766	19.02%	193,393
Central	353,798	15.85%	200,658
Bohai Rim	333,800	14.95%	178,149
Western	316,648	14.18%	194,730
Pearl River Delta	267,184	11.97%	175,414
Northeastern	116,449	5.22%	74,463
Overseas	69,481	3.11%	1,672
Head Office	350,556	15.70%	303
Gross loans and advances to customers	2,232,682	100.00%	1,018,782

	31 December 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	382,262	18.80%	189,936
Bohai Rim	322,013	15.84%	172,218
Central	314,516	15.48%	200,308
Western	301,306	14.83%	174,450
Pearl River Delta	235,902	11.61%	166,276
Northeastern	113,724	5.60%	75,007
Overseas	59,033	2.91%	7,955
Head Office	303,300	14.93%	2,660
Gross loans and advances to customers	2,032,056	100.00%	988,810

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector (continued)

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

	30 June 2018			
	Impaired loans and advances	Stage 1 (expected credit loss of 12 month)	Stage 2 (expected credit loss of of whole period)	Stage 3 (Impaired expected credit loss of whole period)
Bohai Rim	5,332	(2,319)	(2,249)	(2,166)
Yangtze River Delta	5,305	(6,445)	(4,168)	(2,444)
Western	4,846	(3,008)	(3,290)	(2,505)
Pearl River Delta	4,498	(3,479)	(1,532)	(2,546)
Central	3,555	(4,399)	(2,852)	(1,865)
Total	23,536	(19,650)	(14,091)	(11,526)

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Bohai Rim	5,281	(2,588)	(6,829)
Pearl River Delta	5,160	(2,304)	(4,533)
Yangtze River Delta	5,006	(2,947)	(6,992)
Western	4,727	(2,391)	(5,204)
Central	4,483	(2,206)	(5,076)
Total	24,657	(12,436)	(28,634)

The definitions of the regional distributions are set out in Note III 50(b).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2018	31 December 2017
Rescheduled loans and advances to customers	18,663	19,685
Of which: Rescheduled loans and advances to customers overdue more than 90 days	1,353	971

17 Finance lease receivables

	Note	30 June 2018	31 December 2017
Minimum finance lease receivables		71,975	65,555
Less: unearned finance lease income		(9,471)	(7,826)
Present value of minimum lease receivable		62,504	57,729
Less: impairment losses		(1,452)	(1,365)
Net balance	(i)	61,052	56,364

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

	30 June 2018	31 December 2017
Less than 1 year (inclusive)	19,250	18,401
1 year to 2 years (inclusive)	14,099	12,956
2 year to 3 years (inclusive)	11,889	10,924
More than 3 years	26,737	23,274
Total	71,975	65,555

Note:

(i) *Part of finance lease receivables were pledged for borrowing from banks, see Note III 29(a).*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Debt instruments at fair value through other comprehensive income

Debt instruments at fair value through other comprehensive income were anlysed by institutions and location, as follows:

	Note	30 June 2018
In mainland China		
– Government		49,391
– Banks and other financial institutions	(i)	22,169
– Other institutions	(ii)	57,737
Subtotal		129,297
Outside mainland China		
– Banks and other financial institutions		2,824
– Other institutions		13,408
Subtotal		16,232
Total	(iii) (iv)	145,529
Listed	(v)	27,537
Of which listed in Hongkong		18,491
Unlisted		117,992
Total		145,529

Note:

(i) *Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in the mainland China.*

(ii) *Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.*

(iii) *As at 30 June 2018, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB383 million.*

(iv) *Part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements, time deposit and derivative contracts, see Note III 29(a).*

(v) *Listed includes debt instruments traded on the stock exchange markets.*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 Equity instruments at fair value through other comprehensive income

	Note	30 June 2018
Equity instruments at fair value through other comprehensive income	(i)	112
Listed	(ii)	14
Of which listed in Hongkong		–
Unlisted		98
Total		112

Note:

(i) *The group designated the equity instruments not held for trading to be measured at fair value through other comprehensive income. As at 30 June 2018, the fair value was RMB112 million (1 January 2018: RMB109 million). For the six months ended 30 June 2018, dividend the Group received from the above equity instruments approximates to RMB8 million.*

(ii) *Listed includes equity instruments traded on the stock exchange markets.*

20 Financial investments measured at amortised cost

	Note	30 June 2018
Debt securities investment	(a)	434,386
Others	(b)	470,085
Total		904,471
Less: Provision for impairment losses		(4,098)
Net balance		900,373
Listed	(c)	30,497
– of which in Hong Kong		5,502
Unlisted		869,876
Net balance		900,373

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 Financial investments measured at amortised cost (continued)

(a) Debt securities investment measured at amortised cost were anlysed by institutions and location, as follows:

	Note	30 June 2018
In mainland China		
– Government		262,815
– Banks and other financial institutions	(i)	140,509
– Other institutions	(ii)	24,618
Subtotal		427,942
Outside mainland China		
– Government		439
– Banks and other financial institutions		1,826
– Other institutions		4,179
Subtotal		6,444
Total	(iii)	434,386
Less: Provision for impairment losses		(1,251)
Net balance		433,135
Fair Value		432,435

Note:

(i) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed securities issued by banks and other financial institutions in the mainland China.

(ii) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(iii) Part of the debt securities investments measured at amortised cost were pledged for repurchase agreements and time deposit, see Note III 29(a).

(b) Other financial investments measured at amortised cost mainly include trust and other right to earnings.

(c) Listed includes debt securities traded on the stock exchange markets.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 Available-for-sale financial assets

	Note	31 December 2017
Available-for-sale debt investments	(a)	145,331
Available-for-sale equity investments	(b)	899
Available-for-sale fund investments and others	(c)	268,317
Total		414,547
Listed	(d)	17,961
– of which in Hong Kong		14,741
Unlisted		396,586
Total		414,547

(a) Available-for-sale debt investments

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

	Note	31 December 2017
In mainland China		
– Government		47,624
– Banks and other financial institutions	(i)	17,323
– Other institutions	(ii)	67,837
Sub-total		132,784
Outside mainland China		
– Government		65
– Banks and other financial institutions		2,340
– Other institutions		10,142
Sub-total		12,547
Total	(iii)	145,331

Note:

(i) Debt securities issued by banks and other financial institutions mainly represent debt securities and interbank deposits issued by banks and other financial institutions in the mainland China.

(ii) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(iii) As at 31 December 2017, part of the available-for-sale financial assets were pledged for repurchase agreements, time deposit and derivative contracts, see Note III 29(a).

(iv) As at 31 December 2017, the provision of the available-for-sale debt instruments impairment losses of the Group was RMB952 million.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 Available-for-sale financial assets (continued)

(b) Available-for-sale equity investments

	Note	31 December 2017
At cost		
As at 1 January		401
Additions for the year		394
Reductions for the year		(5)
As at the end of the year		790
Less: Provision for impairment losses		(1)
Sub-total	(i)	789
At fair value		110
Total		899

Note:

(i) *Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments, and the Group intends to dispose of them when the opportunity is suitable.*

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

	31 December 2017
Measured as fair value in mainland China – Banks and other financial institutions	268,317
Total	268,317

(d) Listed includes debt securities traded on the stock exchange markets.

(e) Movements of allowance for impairment losses of available-for-sale financial assets during 2017 are as follows:

	Available-for-sale debt investments	Available-for-sale equty investments	Total
At 1 January 2017	745	1	746
Charge for the year	207	–	207
At 31 December 2017	952	1	953

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 Held-to-maturity investments

Debt securities analysed by type and location:

	Note	31 December 2017
In mainland China		
– Government		257,283
– Banks and other financial institutions		71,603
– Other institutions	(a)	11,340
Sub-total		340,226
Outside mainland China		
– Government		166
– Banks and other financial institutions		1,612
– Other institutions		2,714
Sub-total		4,492
Total	(b)	344,718
Less: Provision for impairment losses		(101)
Net balances		344,617
Listed	(c)	4,708
– of which in Hong Kong		2,538
Unlisted		339,909
Net balances		344,617
Fair value		335,894

Note:

(a) *Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.*

(b) *Part of the held-to-maturity investments were pledged as securities for repurchase agreements, time deposits and derivative contracts, see Note III 29(a).*

(c) *Listed includes debt securities traded on the stock exchange markets.*

(d) *The Group disposed a notional amount of RMB650 million prior to their maturity in 2017, which account for 0.19% of the portfolio before disposal.*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 Debt securities classified as receivables

	Note	31 December 2017
Wealth management products issued by financial institution	(a)	5,096
Beneficiary interests in trust and other plans	(b)	509,276
Others		2,326
Total		516,698
Less: Provision for impairment losses		(2,122)
Net balances		514,576

Note:

(a) Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.

(b) Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 31 December 2017, none of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China. The fair values of the above mentioned investments approximate to their carrying amount.

24 Investments in subsidiaries

	Note	30 June 2018	31 December 2017
Everbright Financial Leasing Co., Ltd.	(a)	2,700	2,700
CEB International Investment Co., Ltd.	(b)	1,379	1,379
Shaoshan Everbright Rural Bank Co., Ltd	(c)	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	(d)	70	70
China Everbright Bank Company Limited (Europe)	(e)	156	156
Total		4,410	4,410

Note:

(a) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB3,700 million. The principal activity of Everbright Financial Leasing is the provision of leasing services. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing.

(b) CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. On April 25,2017, the Bank increased the capital of CEBI by HKD1.0 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the capital. After the capital increase, the registered capital of CEBI is HKD1,600 million, equivalent to approximately RMB1,379 million. The Bank holds 100% of equity interests and voting rights of CEBI.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24 Investments in subsidiaries (continued)

Note: (continued)

(c) *Shaoshan Everbright Rural Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.*

(d) *Jiangsu Huai'an Everbright Rural Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.*

(e) *China Everbright Bank Company Limited (Europe) ("China Everbright S A.") was approved by the European Central Bank and was incorporated on July 2017 in Luxembourg, with registered capital of EUR20 million, equivalent to RMB156 million at the spot exchange rate of 7.78096 on the date of transfer of registered capital. The principal activities of China Everbright S A is the provision of corporate banking services. The Bank holds 100% of equity interests and voting rights of China Everbright S A.*

25 Fixed Assets

	Premises (Note(i))	Aircraft (Note(ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	74	–	552	93	107	826
Transfers out	–	–	(1)	–	–	(1)
Disposals	(16)	–	–	(65)	(25)	(106)
Foreign currency conversion difference	–	36	–	–	–	36
As at 30 June 2018	11,462	2,788	2,157	6,088	3,835	26,330
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the period	(179)	(48)	–	(310)	(159)	(696)
Disposals	1	–	–	62	21	84
Foreign currency conversion difference	–	(4)	–	–	–	(4)
As at 30 June 2018	(3,522)	(155)	–	(4,761)	(2,665)	(11,103)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
Charge for the period	–	–	–	–	–	–
As at 30 June 2018	(159)	–	–	–	–	(159)
Net book value						
As at 30 June 2018	7,781	2,633	2,157	1,327	1,170	15,068

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25 Fixed Assets (continued)

	Premises (Note(i))	Aircraft (Note(ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2017	11,170	2,266	949	5,731	3,536	23,652
Additions	234	1,224	675	460	264	2,857
Transfers (out)/in to others	–	–	(18)	(1)	1	(18)
Disposals	–	(600)	–	(129)	(45)	(774)
Foreign currency conversion difference	–	(138)	–	(1)	(3)	(142)
As at 31 December 2017	11,404	2,752	1,606	6,060	3,753	25,575
Accumulated depreciation						
As at 1 January 2017	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Charge for the year	(349)	(82)	–	(685)	(301)	(1,417)
Disposals	–	24	–	121	43	188
Foreign currency conversion difference	–	5	–	–	2	7
As at 31 December 2017	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Provision for impairment						
As at 1 January 2017	(159)	–	–	–	–	(159)
As at 31 December 2017	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2017	7,901	2,649	1,606	1,547	1,226	14,929

Note:

(i) *As at 30 June 2018, title deeds were not yet finalised for the premises with a carrying amount of RMB145 million (31 December 2017: RMB148 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 30 June 2018, Everbright Financial Leasing Co., Ltd., the group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB2,633 million (as at 31 December 2017: RMB2,649 million).*

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

	30 June 2018	31 December 2017
Held in mainland China		
– Medium term leases (10 – 50 years)	7,673	7,807
– Short term leases (less than 10 years)	108	94
Total	7,781	7,901

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26 Goodwill

	30 June 2018	31 December 2017
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

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

27 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2018		31 December 2017	
	Temporary Difference	Deferred Tax assets/ (liabilities)	Temporary Difference	Deferred Tax assets/ (liabilities)
Deferred income tax assets	39,852	9,963	30,385	7,596
Deferred income tax liabilities	–	–	–	–
Net balances	39,852	9,963	30,385	7,596

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(ii)	Net losses/ (gains) from fair value changes of financial instruments Note(iii)	Accrued staff costs	Net balance of deferred tax assets
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards (Note(i))	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	(125)	(448)	879	306
Recognised in other comprehensive income	87	(374)	–	(287)
30 June 2018	7,326	211	2,426	9,963

	Provision for impairment losses (Note(ii))	Net (gains)/ losses from fair value changes of financial instruments (Note(iii))	Accrued staff costs	Net balance of deferred tax assets
1 January 2017	4,512	(324)	1,434	5,622
Recognised in profit or loss	406	687	113	1,206
Recognised in other comprehensive income	–	768	–	768
31 December 2017	4,918	1,131	1,547	7,596

Note:

(i) *The adjustment is caused by the changes of fair value, and asset impairment loss provision under the first adoption of IFRS 9.*

(ii) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(iii) *Net losses/(gains) on fair value changes of financial instruments are subject to tax when realised.*

(iv) *Unrecognised deferred tax assets*

As at 30 June 2018, the Group has not recognised deferred tax assets of RMB7,595 million (31 December 2017: RMB6,928 million) for provision of impairment losses amounting to RMB30,380 million (31 December 2017: RMB27,710 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 Other assets

	Note	30 June 2018	31 December 2017
Other receivables	(a)	24,734	8,127
Fixed assets purchase prepayment		2,481	2,088
Long-term deferred expense		1,091	1,223
Intangible assets		971	992
Repossessed assets		613	476
Land use rights		97	100
Others		3,883	4,158
Total		33,870	17,164

Note:

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

29 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 30 June 2018 is RMB75,197 million (31 December 2017: RMB74,231 million).

(b) Collaterals received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2018.

As at 30 June 2018, the Group's collateral received from banks and other financial institutions has expired (31 December 2017: Nil). As at 30 June 2018, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2017: Nil). These transactions are conducted under standard terms in the normal course of business.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 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	133,000	155,111
– Other financial institutions	465,976	416,005
Sub-total	598,976	571,116
Deposits outside mainland China		
– Banks	6,357	6,331
Total	605,333	577,447

31 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	97,539	61,686
– Other financial institutions	9,104	404
Sub-total	106,643	62,090
Placements outside mainland China		
– Banks	51,885	44,708
– Other financial institutions	579	–
Sub-total	52,464	44,708
Total	159,107	106,798

32 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In mainland China		
– Banks	34,571	45,581
– Other financial institutions	33	–
Total	34,604	45,581

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

32 Financial assets sold under repurchase agreements (continued)

(b) Analysed by collateral

	30 June 2018	31 December 2017
Bank acceptances	3,678	4,471
Debt securities	30,926	41,110
Total	34,604	45,581

33 Deposits from customers

	Note	30 June 2018	31 December 2017
At amortised cost			
Demand deposits			
– Corporate customers		725,650	709,342
– Individual customers		196,102	176,416
Sub-total		921,752	885,758
Time deposits			
– Corporate customers		693,650	673,652
– Individual customers		111,510	108,399
Sub-total		805,160	782,051
Pledged deposits			
– Acceptances		152,755	166,513
– Letters of credit		15,674	14,645
– Letters of guarantees		24,000	23,300
– Others		16,000	16,434
Sub-total		208,429	220,892
Other deposits		99,465	91,371
Total deposits from customers at amortised cost		2,034,806	1,980,072
At fair value			
Structured deposits	(i)		
– Corporate customers		264,535	196,313
– Individual customers		136,193	96,280
Total deposits from customers at fair value		400,728	292,593
Total		2,435,534	2,272,665

Note:

(i) *Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception.There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the six months ended 30 June 2018 and the year ended 31 December 2017.*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

34 Accrued staff costs

	Note	30 June 2018	31 December 2017
Salary and welfare payable		7,517	7,452
Pension payable	(a)	409	291
Supplementary retirement benefits payable	(b)	669	669
Total		8,595	8,412

Note:

(a) Pension scheme

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

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

(b) Supplementary retirement benefits ("SRB")

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

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

35 Taxes payable

	30 June 2018	31 December 2017
Income tax payable	1,249	2,914
Value added tax payable	2,028	1,685
Others	367	333
Total	3,644	4,932

36 Interests payable

	30 June 2018	31 December 2017
Deposits from customers	29,712	29,424
Debt securities issued	2,328	3,576
Others	6,931	7,206
Total	38,971	40,206

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Debt securities issued

	Note	30 June 2018	31 December 2017
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	49,954	52,743
Tier-two capital bonds	(c)	56,167	56,165
Convertible bonds issued	(d)	26,112	25,597
Interbank deposits issued	(e)	219,956	284,457
Certificates of deposits issued	(f)	4,899	10,000
Medium term notes	(g)	14,207	9,734
Total		377,995	445,396

(a) Subordinated debts

	Note	30 June 2018	31 December 2017
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

(i) *Fixed rate subordinated debtswith a nominal value of RMB6.70 billion, a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 30 June 2018, the fair value of the total subordinated debt securities issued approximates to RMB6,823 million (31 December 2017: RMB6,549 million).*

(b) Financial bonds

	Note	30 June 2018	31 December 2017
Financial fixed rate bonds maturing in June 2018	(i)	–	2,800
Financial fixed rate bonds maturing in February 2020	(ii)	27,976	27,970
Financial fixed rate bonds maturing in July 2020	(iii)	21,978	21,973
Total		49,954	52,743

Note:

(i) *Fixed rate financial bonds of RMB3.50 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. As at 31 December 2017, the Bank held RMB0.70 billion of these bonds.*

(ii) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(iii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iv) *As at 30 June 2018, the fair value of the total financial bond securities issued approximates to RMB49,634 million (31 December 2017: RMB51,533 million).*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Debt securities issued (continued)

(c) Tier-two capital bonds

	Note	30 June 2018	31 December 2017
Tier-two capital fixed rate bonds maturing in June 2024	(i)	16,200	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,978	27,976
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,989	11,989
Total		56,167	56,165

Note:

(i) Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.

(ii) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.

(iii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.

(iv) As at 30 June 2018, the fair value of the total tier-two capital bonds approximates to RMB56,181 million (31 December 2017: RMB53,741 million).

(d) Convertible bonds issued

	30 June 2018	31 December 2017
Fixed rate six years convertible bonds issued in March 2017	26,112	25,597

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

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

	Note	Liability component	Equity component Note III.40	Total
Nominal value of convertible corporate bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Amortisation during 2017		835	–	835
Conversion Amount during 2017		–	–	–
Balance as at 31 December 2017		25,597	5,161	30,758
Amortisation during this period		515	–	515
Conversion Amount	(iv)	–	–	–
Balance as at 30 June 2018		26,112	5,161	31,273

Note:

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

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the tota outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2018,the new conversion price is RMB4.31 per share.*

(iv) *As at June 30 2018, a total of RMB520,000 (31 December 2017: RMB137,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 120,996 shares (31 December 2017: 32,138 shares).*

(v) *For the period ended 30 June 2018, a total of RMB60 million interests have been paid by the Bank related to the convertible bonds (Six month ended 30 June 2017: null).*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Debt securities issued (continued)

(e) Interbank deposits issued

For the six months ended 30 June 2018, 141 inter-bank deposits were issued by the Bank and measured at amortized cost. Its carrying amount is RMB355,050 million (six months ended 30 June 2017: RMB337,130 million). The carrying amount of inter-bank deposits due in 2018 was RMB418,620 million (six months ended 30 June 2017: RMB280,480 million). As at 30 June 2018, the fair value of its outstanding interbank deposits was RMB218,091 million (31 December 2017: RMB280,452 million).

(f) Certificates of deposits issued

As at 30 June 2018, the certificates of deposits were issued by the Bank's Hong Kong branch and Seoul branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	30 June 2018	31 December 2017
Medium term notes with fixed rate maturing in 15 September 2019	(i)	3,294	3,239
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,294	3,239
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,312	3,256
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,321	–
Medium term notes with floating rate maturing in 13 June 2021	(v)	1,986	–
Total		14,207	9,734

Note:

(i) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.

(ii) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.

(iii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.

(iv) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.

(v) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.

(vi) As at 30 June 2018, the fair value of the medium term notes approximates to RMB14,121 million (31 December 2017: RMB9,677 million).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

38 Other liabilities

	Note	30 June 2018	31 December 2017
Dividend payables		9,521	20
Deferred income	(a)	6,247	4,365
Bank Loans	(b)	5,360	3,872
Deferred emoluments payment	(c)	4,730	4,663
Finance leases payable		3,657	3,294
Provisions	(d)	1,896	317
Payment and collection clearance accounts		705	5,243
Dormant accounts		358	336
Others		20,288	20,208
Total		52,762	42,318

Note:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 30 June 2018, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans with a terms from 3 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan is RMB5,360 million (As at 31 December 2017: RMB3,872 million).*

(c) *As at 30 June 2018, the deferred emolument payable amounted to RMB4,730 million (31 December 2017: RMB4,663 million), which is related to deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans.*

(d) *As at 30 June 2018, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB17 million (31 December 2017: RMB17 million).*

39 Share capital

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

	30 June 2018	31 December 2017
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

40 Other equity instrument

	Note III	30 June 2018	31 December 2017
Preference shares (Note (a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	37(d)	5,161	5,161
Total		35,108	35,108

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

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

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

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

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

(ii) Conditions to distribution of dividends

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

40 Other equity instrument (continued)

(b) Main Clauses (continued)

(iii) Dividend blocker

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

(iv) Order of distribution and liquidation method

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

(v) Mandatory conversion trigger events

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

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

(vi) Redemption

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

40 Other equity instrument (continued)

(c) Changes in Preference shares outstanding

	1 January 2018		Additions for the period		30 June 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2017		Additions for the year		31 December 2017	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

(d) Interests attributable to equity instruments' holders

Items	30 June 2018	31 December 2017
Total equity attributable to equity shareholders of the Bank	304,179	304,760
– Equity attributable to ordinary shares holders of the Bank	274,232	274,813
– Equity attributable to preference shares holders of the Bank	29,947	29,947
Total equity attributable to non-controlling interests	686	676
– Equity attributable to non-controlling interests of ordinary shares	686	676
– Equity attributable to non-controlling interests of preference shares	–	–

41 Capital reserve

	30 June 2018	31 December 2017
Share premium	53,533	53,533

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

42 Other comprehensive income

	30 June 2018	31 December 2017
Items that will not be reclassified to profit or loss		
Equity instrument at fair value through other comprehensive income	10	–
Remeasurement of defined benefit plan	(21)	(21)
Subtotal	(11)	(21)
Items that will be reclassified subsequently to profit or loss		
Debt instruments at fair value through other comprehensive income		
– Net change in fair value	(1,043)	–
– Net change in expected credit loss	624	–
Fair value changes on available-for-sale financial assets	–	(1,778)
Exchange differences on translation of financial statements	(30)	(46)
Subtotal	(449)	(1,824)
Total	(460)	(1,845)

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

	Fair value change on debt instrument at fair value through other comprehensive income	Net change in ECL on debt instrument at fair value through other comprehensive income	Fair value change on equity instrument at fair value through other comprehensive income	Fair value change on available-for-sale financial assets	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2017	–	–	–	552	41	(84)	509
Changes in amount for the previous year	–	–	–	(2,330)	(87)	63	(2,354)
As at 31 December 2017	–	–	–	(1,778)	(46)	(21)	(1,845)
Impact of adopting new standards	(1,948)	887	8	1,778	–	–	725
As at 1 January 2018	(1,948)	887	8	–	(46)	(21)	(1,120)
Changes in amount for the period	905	(263)	2	–	16	–	660
As at 30 June 2018	(1,043)	624	10	–	(30)	(21)	(460)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

43 Surplus reserve and general reserve

(a) Surplus reserve

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

(b) General reserve

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

44 Appropriation of profits

(a) At the Annual General Meeting of shareholders held on 22 June 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

- Appropriated RMB3,103 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB809 million to general reserve; and
- Declared cash dividends to all shareholders of RMB9,501 million representing RMB1.81 per 10 shares before tax.

(b) At the Board Meeting held on 28 April 2018, the dividend distribution of the first preference shares was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, start accruing from 25 June 2017, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

(c) At the Annual General Meeting of shareholders held on 20 June 2017, the shareholders approved the following profit appropriation for the year ended 31 December 2016:

- Appropriated RMB2,987 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB10,362 million to general reserve; and
- Declared cash dividends to all shareholders of RMB4,575 million representing RMB0.98 per 10 shares before tax.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

44 Appropriation of profits (continued)

(d) At the Board Meeting held on 6 June 2017, the dividend distribution of the first preference shares was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, start accruing from 25 June 2016, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

(e) At the Board Meeting held on 10 August 2017, the dividend distribution of the second preference shares was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, start accruing from 11 August 2016, and are calculated using the 3.90% of dividend yield ratio for China Everbright Bank the second phase preference shares.

45 Involvement with structured entities

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

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

45 Involvement with structured entities (continued)

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

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at 30 June 2018:

	30 June 2018		31 December 2017	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	205,455	205,455	–	–
– Asset management plans	9,791	9,791	–	–
Financial investments measured at amortised cost				
– Asset management plans	467,238	467,238	–	–
– Asset-backed securities	5,169	5,169	–	–
Debt securities classified as receivables	–	–	514,576	514,576
Available-for-sale financial assets				
– Fund investments	–	–	235,917	235,917
– Wealth management products	–	–	32,400	32,400
Held-to-maturity investments				
– Asset-backed securities	–	–	4,330	4,330
Total	687,653	687,653	787,223	787,223

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

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2018, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

45 Involvement with structured entities (continued)

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

As at 30 June 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB689,413 million (31 December 2017: RMB737,881 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 30 June 2018 amounted to RMB642 million (Six months ended 30 June 2017: RMB164,089 million).

For the six months ended 30 June 2018, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB502 million (Six months ended 30 June 2017: RMB2,256 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. As at 30 June 2018, the balance of above trading was RMB8,000 million (31 December 2017: RMB16,000 million). Such financing provided by the Group was included in “Placements with banks and other financial institutions”. The maximum exposure to loss of those placements approximated to the carrying amount. For the six months ended 30 June 2018, the amount of interest receivables provided by the above financing being recognized are not material for the Group in the statement of profit or loss.

In addition, as at 30 June 2018, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note III.46. During the six months ended 30 June 2018, the Group’s income from these structured entities was immaterial.

(c) Consolidated structured entities

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

46 Transferred financial assets

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

Credit assets backed securitization

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

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB141 million as at 30 June 2018 (31 December 2017: RMB265 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 30 June 2018(31 December 2017: RMB8,127 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB550 million as at 30 June 2018(31 December 2017: RMB550 million).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2018, loans with an original carrying amount of RMB4,993 million (31 December 2017: RMB5,957 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 30 June 2018, the carrying amount of assets that the Group continues to recognise amounts to RMB1,800 million (31 December 2017: RMB2,537 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

47 Capital management

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

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

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

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

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

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

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

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

47 Capital management (continued)

	30 June 2018	31 December 2017
Total common equity tier-one capital	274,760	275,302
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	58,234	56,849
Surplus reserve	21,054	21,054
General reserve	52,258	52,257
Retained earnings	90,197	92,164
Qualifying portions of non-controlling interests	528	489
Common equity tier-one capital deductions	(2,253)	(2,276)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(971)	(992)
Net deferred tax assets arising from operating losses that depend on future profits	(1)	(3)
Net common equity tier-one capital	272,507	273,026
Additional tier-one capital	30,018	30,012
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	71	65
Tier-one capital net	302,525	303,038
Tier-two capital	87,802	82,486
Qualifying portions of tier-two capital instruments issued and share premium	62,867	62,865
Excess loan loss provisions	24,856	19,498
Qualifying portions of non-controlling interests	79	123
Net capital base	390,327	385,524
Total risk-weighted assets	3,079,292	2,856,800
Common equity tier-one capital adequacy ratio	8.85%	9.56%
Tier-one capital adequacy ratio	9.82%	10.61%
Capital adequacy ratio	12.68%	13.49%

48 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	For the six months ended 30 June	
	2018	2017
Cash and cash equivalents as at 30 June	189,673	181,347
Less: Cash and cash equivalents as at 1 January	147,923	241,507
Net increase/(decrease) in cash and cash equivalents	41,750	(60,160)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Notes to consolidated cash flow statements (continued)

(b) Cash and cash equivalents

	30 June 2018	30 June 2017
Cash on hand	5,070	5,739
Deposits with the central bank	97,218	29,667
Deposits with banks and other financial institutions	18,745	83,432
Placements with banks and other financial institutions	68,640	62,509
Total	189,673	181,347

49 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

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

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note III 49(b).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

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

(i) ***Other related parties information*** (continued)

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

Related party	Relationship with the Group
Affiliated companies (continued)	
– Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Jiaxing Meiyin Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Baode Trust Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Banks and Securities Data Network Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities International Limited	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– Everbright International Hotel Property Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Photon Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Deshang Investment Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Ivy Investment Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Wenzi Everbright cultural and creative industry Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Everbright Wudaokou Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Amman Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Aircraft Leasing Group Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

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

(i) ***Other related parties information*** (continued)

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

Related party	Relationship with the Group
Other related parties	
– China Re Asset Management Co., Ltd.	Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– COSCO Finance Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Co., Ltd.	Common key management
– Vantone Holdings Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Shanghai Benemae Pharmaceutical Corporation	Common key management
– Hithink Flush Information Network Co., Ltd.	Common key management
– Shanghai Electric Group Co., Ltd.	Common key management
– China Traditional Chinese Medicine Co., Ltd.	Common key management
– Beijing Science and Technology Park Construction (group) Co., Ltd.	Common key management
– CIB Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– Changsha Siming Robot Technology Co., Ltd.	Common key management
– Shijiazhuang Huilin Food Co., Ltd.	Common key management
– Beijing Jingeng Clean Energy Power Co., Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co., Ltd.	Common key management
– Overseas Chinese Town Holding Company	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management
– Huadian Fuxin Energy Co., Ltd.	Common key management

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

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

(ii) Related party transactions

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

	China Everbright Group (NoteIII 49(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2018:				
Interest income	–	177	101	278
Interest expense	(2)	(208)	(376)	(586)
Balances with related parties as at 30 June 2018:				
Financial assets at fair value through profit or loss	–	12,902	589	13,491
Derivative financial assets	–	–	4	4
Financial assets held under resale agreements	–	–	200	200
Interests receivable	11	95	13	119
Loans and advances to customers	–	6,521	5,200	11,721
Debt instruments at fair value through other comprehensive income	286	819	170	1,275
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	206,876	–	206,876
Other assets	–	28	246	274
Total	297	227,241	6,520	234,058
Deposits from banks and other financial institutions	–	1,493	1,143	2,636
Derivative financial liabilities	–	–	3	3
Deposits from customers	292	7,165	38,803	46,260
Interests payable	–	18	48	66
Total	292	8,676	39,997	48,965
Significant other sheet items with related parties as at 30 June 2018:				
Guarantee granted by the Group (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	138	–	138

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

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

(ii) Related party transactions (continued)

	China Everbright Group (NoteIII 49(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2017:				
Interest income	–	713	34	747
Interest expense	(3)	(224)	(260)	(487)
Balances with related parties as at 31 December 2017:				
Derivative financial assets	–	–	1	1
Financial assets sold under repurchase agreements	–	100	–	100
Interests receivable	6	338	15	359
Loans and advances to customers	–	3,142	–	3,142
Available-for-sale financial assets	277	9,765	3,596	13,638
Held-to-maturity investments	–	–	50	50
Debt securities classified as receivables	–	216,784	900	217,684
Other assets	–	67	1	68
Total	283	230,196	4,563	235,042
Deposits from banks and other financial institutions	–	1,524	1,181	2,705
Derivative financial liabilities	–	–	1	1
Deposits from customers	245	7,578	17,278	25,101
Interests payable	2	162	241	405
Other liabilities	–	–	2	2
Total	247	9,264	18,703	28,214
Significant off-balance sheet items with related parties as at 31 December 2017:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	138	–	138

Note: As at 30 June 2018, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2017: RMB180 million) due to one of the state-owned commercial banks.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

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

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

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

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

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

	For the six months ended 30 June	
	2018	2017
Interest income	665	2,497
Interest expense	(1,887)	(2,833)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

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

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

	30 June 2018	31 December 2017
Deposits with banks and other financial institutions	7,345	6,300
Placements with banks and other financial institutions	21,664	9,983
Financial assets at fair value through profit or loss	34,210	454
Derivative financial assets	2,920	1,320
Financial assets held under resale agreements	978	17,049
Interests receivable	1,098	1,727
Loans and advances to customers	2,465	1,883
Debt instruments at fair value through other comprehensive income	12,878	–
Financial investments at amortised cost	59,856	–
Available-for-sale financial assets	–	35,840
Held-to-maturity investments	–	29,293
Debt securities classified as receivables	–	13,917
Other assets	1	825
Deposits from banks and other financial institutions	58,516	88,385
Placements from banks and other financial institutions	77,471	36,655
Derivative financial liabilities	2,502	1,995
Financial assets sold under repurchase agreements	2,232	3,397
Deposits from customers	26,051	19,238
Interests payable	439	1,140
Other liabilities	3	4

(d) Transactions with other PRC state-owned entities

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

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Related party relationships and transactions (continued)

(e) Key management personnel

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Remuneration	8,977	8,410
Retirement benefits	615	567
– Basic social pension insurance	362	311

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

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Aggregate amount of relevant loans outstanding as at the period/year end	13,332	13,594
Maximum aggregate amount of relevant loans outstanding during the period/year	16,555	17,016

50 Segment reporting

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

Corporate banking

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

Retail banking

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

Financial market business

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

Others

These represent equity investments and related income.

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

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

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities

	For the six months ended 30 June 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	10,463	14,006	2,870	–	27,339
Internal net interest income/ (expense)	8,099	(7,077)	(1,022)	–	–
Net interest income	18,562	6,929	1,848	–	27,339
Net fee and commission income	3,277	14,626	473	–	18,376
Net trading gains	–	–	2,284	–	2,284
Dividend income	–	–	–	8	8
Net gains/(losses) arising from investment securities	(62)	1	6,311	–	6,250
Foreign exchange gains/(losses)	147	42	(2,424)	–	(2,235)
Other operating income	205	15	9	52	281
Operating income	22,129	21,613	8,501	60	52,303
Operating expenses	(7,053)	(7,976)	(1,029)	(17)	(16,075)
Operating profit before impairment	15,076	13,637	7,472	43	36,228
Impairment losses on assets	(10,974)	(3,515)	(79)	–	(14,568)
Profit before tax	4,102	10,122	7,393	43	21,660
Other segment information					
– Depreciation and amortisation	(507)	(482)	(70)	–	(1,059)
– Capital expenditure	490	543	67	–	1,100

	30 June 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,667,524	1,046,532	1,557,374	603	4,272,033
Segment liabilities	2,010,232	602,586	1,353,782	2,291	3,968,891

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

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

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

	31 December 2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,536,604	993,822	1,547,255	1,685	4,079,366
Segment liabilities	1,917,280	533,771	1,329,807	1,929	3,782,787

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

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

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

	Note III	30 June 2018	31 December 2017
Segment assets		4,272,033	4,079,366
Goodwill	26	1,281	1,281
Deferred tax assets	27	9,963	7,596
Total assets		4,283,277	4,088,243
Segment liabilities		3,968,891	3,782,787
Dividend payables	38	9,521	20
Total liabilities		3,978,412	3,782,807

(b) Geographical information

The Group operates principally in mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Hong Kong and Luxembourg.

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

– "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank, Huai'an Everbright: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Everbright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(b) Geographical information (continued)

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining and Lhasa;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the following areas serviced by branches of the Bank:Hong Kong, Seoul, Luxembourg; and

– "Head Office" refers to the headquarter of the Group.

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
For the six months period ended 30 June 2018	7,405	6,656	22,108	5,388	4,612	3,784	1,620	730	52,303
For the six months period ended 30 June 2017	6,942	6,558	14,943	6,621	4,389	4,391	1,960	581	46,385

	Non-current Asset (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
30 June 2018	2,422	845	5,838	3,660	1,161	1,218	908	84	16,136
31 December 2017	2,496	901	5,466	3,730	1,158	1,261	920	89	16,021

Note:

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management

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

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

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

(a) Credit risk

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

Credit business

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

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

– The Corporate Banking Department, Small and Micro Enterprises Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

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

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

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

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

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 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.

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the riskchance of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

The Group shall measure ECL of a financial instrument in a way that reflects:

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

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flow

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 30 June 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

Treasury Business

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

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the period is disclosed in Note III 54(a).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

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

	30 June 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Gross amount	33,790	841	366	–	1,561	1,819
Provision for impairment losses	(18,851)	(498)	(63)	–	(914)	(259)
Sub-total	14,939	343	303	–	647	1,560
Overdue but not impaired						
– Less than 3 months (inclusive)	19,285	25	–	–	–	–
– Between 3 months and 6 months (inclusive)	317	–	–	–	–	–
– Over 6 months	55	–	–	–	–	–
Gross amount	19,657	25	–	–	–	–
Provision for impairment losses	(2,966)	–	–	–	–	–
Sub-total	16,691	25	–	–	–	–
Neither overdue nor impaired						
Gross amount	2,179,235	61,638	175,840	62,460	1,307,520	66,889
Provision for impairment losses	(36,218)	(954)	(319)	(6)	(3,183)	(365)
Sub-total	2,143,017	60,684	175,521	62,454	1,304,337	66,524
Total	2,174,647	61,052	175,824	62,454	1,304,984	68,084

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

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

	31 December 2017					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Individually assessed gross amount	22,785	714	16	–	1,565	316
Provision for impairment losses	(14,219)	(533)	(16)	–	(949)	(138)
Sub-total	8,566	181	–	–	616	178
Collectively assessed gross amount	9,607	–	–	–	–	1,179
Provision for impairment losses	(6,251)	–	–	–	–	(90)
Sub-total	3,356	–	–	–	–	1,089
Overdue but not impaired						
– Less than 3 months (inclusive)	16,321	2	–	–	640	–
– Between 3 months and 6 months (inclusive)	2,419	113	–	–	–	–
– Over 6 months	2,707	–	350	–	–	–
Gross amount	21,447	115	350	–	640	–
Provision for impairment losses	(4,267)	(28)	–	–	(160)	–
Sub-total	17,180	87	350	–	480	–
Neither overdue nor impaired						
Gross amount	1,978,217	56,900	193,250	91,441	1,298,907	50,133
Provision for impairment losses	(26,501)	(804)	(30)	–	(2,067)	(390)
Sub-total	1,951,716	56,096	193,220	91,441	1,296,840	49,743
Total	1,980,818	56,364	193,570	91,441	1,297,936	51,010

* *Investments comprise financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).*

** *Others comprise precious metals (at fair value part), derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) Credit rating

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

	30 June 2018	31 December 2017
Impaired		
Carrying amount	366	16
Provision for impairment losses	(63)	(16)
Sub-total	303	–
Overdue but not impaired		
– grade A to AAA	–	350
Sub-total	–	350
Neither overdue nor impaired		
– grade A to AAA	227,705	193,039
– grade B to BBB	10,270	2,608
– unrated (Note)	–	89,014
Sub-total	237,975	284,661
Total	238,278	285,011

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) Credit rating (continued)

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

	30 June 2018	31 December 2017
Impaired		
Carrying amount	1,561	1,564
Provision for impairment losses	(914)	(948)
Sub-total	647	616
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	1,919	722
– grade AA- to AA+	17	17
– grade A- to A+	9,055	6,715
– grade lower than A-	7,897	11,442
Sub-total	18,888	18,896
Other agency ratings		
– grade AAA	117,078	181,244
– grade AA- to AA+	70,921	301,343
– grade A- to A+	357,291	589
– grade lower than A-	8,623	–
– unrated	44,923	11,445
Sub-total	598,836	494,621
Total	618,371	514,133

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk

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

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

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

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

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

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

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

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

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

Interest rate risk

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

Repricing risk

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

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

Trading interest rate risk

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

	30 June 2018						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	376,711	15,396	361,315	–	–	–
Deposits with banks and other financial institutions	2.39%	24,024	325	23,699	–	–	–
Placements with banks and other financial institutions	3.91%	151,800	–	80,587	71,213	–	–
Financial assets held under resale agreements	3.43%	62,454	–	62,454	–	–	–
Loans and advances to customers	4.60%	2,174,647	22,471	1,190,772	875,834	34,012	51,558
Finance lease receivables	5.19%	61,052	180	47,325	12,962	585	–
Investments (Note (i))	4.37%	1,304,984	1,898	262,572	221,456	675,997	143,061
Others	–	127,605	124,083	–	–	–	3,522
Total assets	4.19%	4,283,277	164,353	2,028,724	1,181,465	710,594	198,141
Liabilities							
Due to the central bank	3.26%	252,000	–	41,000	211,000	–	–
Deposits from banks and other financial institutions	4.27%	605,333	–	507,212	98,121	–	–
Placements from banks and other financial institutions	3.04%	159,107	–	107,718	51,389	–	–
Financial assets sold under repurchase agreements	2.65%	34,604	–	33,295	1,309	–	–
Deposits from customers	2.10%	2,435,534	4,530	1,644,845	536,606	249,553	–
Debt securities issued	4.53%	377,995	–	153,360	105,225	56,543	62,867
Others	–	113,839	105,030	6,872	1,445	492	–
Total liabilities	2.84%	3,978,412	109,560	2,494,302	1,005,095	306,588	62,867
Asset-liability gap	1.35%	304,865	54,793	(465,578)	176,370	404,006	135,274

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

	31 December 2017						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	353,703	15,235	338,468	–	–	–
Deposits with banks and other financial institutions	3.39%	44,754	–	44,754	–	–	–
Placements with banks and other financial institutions	3.39%	148,816	–	77,947	70,459	410	–
Financial assets held under resale agreements	3.31%	91,441	–	91,441	–	–	–
Loans and advances to customers	4.44%	1,980,818	28,755	1,597,817	328,240	23,815	2,191
Finance lease receivables	4.69%	56,364	265	55,775	17	307	–
Investments (Note (i))	4.13%	1,297,936	1,890	352,130	158,508	693,726	91,682
Others	–	114,411	111,004	–	–	–	3,407
Total assets	4.00%	4,088,243	157,149	2,558,332	557,224	718,258	97,280
Liabilities							
Due to the central bank	3.10%	232,500	–	9,500	223,000	–	–
Deposits from banks and other financial institutions	4.03%	577,447	–	509,851	67,596	–	–
Placements from banks and other financial institutions	2.70%	106,798	6	72,046	34,746	–	–
Financial assets sold under repurchase agreements	2.68%	45,581	–	44,177	1,404	–	–
Deposits from customers	1.93%	2,272,665	3,504	1,850,016	305,381	113,757	7
Debt securities issued	4.01%	445,396	–	233,425	92,685	56,421	62,865
Others	–	102,420	90,308	9,534	2,108	469	1
Total liabilities	2.68%	3,782,807	93,818	2,728,549	726,920	170,647	62,873
Asset-liability gap	1.32%	305,436	63,331	(170,217)	(169,696)	547,611	34,407

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

Note:

- *Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/ liabilities.*
- *Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables).*

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2018, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB3,253 million (31 December 2017: decrease by RMB3,637 million), and equity to decrease by RMB5,914million (31 December 2017: decrease by RMB4,506 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB3,276 million (31 December 2017: increase by RMB3,652 million), and equity to increase by RMB6,059 million (31 December 2017: increase by RMB4,694 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis (continued)

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

– Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the reporting period, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

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

Foreign currency risk

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

	30 June 2018			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	370,345	5,887	479	376,711
Deposits with banks and other financial institutions	8,469	11,094	4,461	24,024
Placements with banks and other financial institutions	104,808	45,319	1,673	151,800
Financial assets held under resale agreements	62,454	–	–	62,454
Loans and advances to customers	2,066,279	70,902	37,466	2,174,647
Finance lease receivables	60,014	1,038	–	61,052
Investments (Note (i))	1,259,984	37,525	7,475	1,304,984
Others	122,118	4,419	1,068	127,605
Total assets	4,054,471	176,184	52,622	4,283,277
Liabilities				
Due to the central bank	252,000	–	–	252,000
Deposits from banks and other financial institutions	604,982	174	177	605,333
Placements from banks and other financial institutions	47,421	97,517	14,169	159,107
Financial assets sold under repurchase agreements	34,434	–	170	34,604
Deposit from customers	2,280,815	126,758	27,961	2,435,534
Debt securities issued	360,598	14,510	2,887	377,995
Others	107,062	5,521	1,256	113,839
Total liabilities	3,687,312	244,480	46,620	3,978,412
Net position	367,159	(68,296)	6,002	304,865
Off-balance sheet credit commitments	808,627	50,967	10,201	869,795
Derivative financial instruments (Note (ii))	(164,613)	14,596	(2,693)	(152,710)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

	31 December 2017			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	347,639	5,624	440	353,703
Deposits with banks and other financial institutions	32,776	7,882	4,096	44,754
Placements with banks and other financial institutions	110,803	32,973	5,040	148,816
Financial assets held under resale agreements	91,441	–	–	91,441
Loans and advances to customers	1,895,655	51,288	33,875	1,980,818
Finance lease receivables	55,282	1,082	–	56,364
Investments (Note (i))	1,263,076	28,442	6,418	1,297,936
Others	108,692	5,064	655	114,411
Total assets	3,905,364	132,355	50,524	4,088,243
Liabilities				
Due to the central bank	232,500	–	–	232,500
Deposits from banks and other financial institutions	577,173	103	171	577,447
Placements from banks and other financial institutions	44,478	41,967	20,353	106,798
Financial assets sold under repurchase agreements	45,581	–	–	45,581
Deposit from customers	2,143,894	107,276	21,495	2,272,665
Debt securities issued	425,697	16,801	2,898	445,396
Others	95,820	5,411	1,189	102,420
Total liabilities	3,565,143	171,558	46,106	3,782,807
Net position	340,221	(39,203)	4,418	305,436
Off-balance sheet credit commitments	750,286	41,829	8,497	800,612
Derivative financial instruments (Note (ii))	(46,269)	45,861	(1,612)	(2,020)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

Note:

(i) Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables).

(ii) Derivative financial instruments reflect the net notional amounts of derivatives.

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

	30 June 2018	31 December 2017
Exchange rates against RMB for the HK dollars	0.8438	0.8334
Exchange rates against RMB for the US dollars	6.6210	6.5124

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2018, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB57 million (31 December 2017: increase by RMB11 million); a depreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB57 million (31 December 2017: decrease by RMB11 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity) against RMB;

– The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

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

Price risk

Equity instrument investment price risk refers to the fair value of the equity securities by stock index level and the change of the value of individual securities and reduce risk. The Group is exposed to equity price risk on its listed equity securities classified as financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income. As at 30 June 2018, a 5 percentage variance in listed equity prices from the year end price would impact the net asset by RMB7,710 million (31 December 2017: RMB8,851 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk

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

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

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

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

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

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk (continued)

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

	30 June 2018							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	274,423	102,288	–	–	–	–	–	376,711
Deposit with banks and other financial institutions	303	18,078	1,970	3,673	–	–	–	24,024
Placements with banks and other financial institutions	–	–	69,539	11,048	71,213	–	–	151,800
Financial asset held under resale agreements	–	–	62,454	–	–	–	–	62,454
Loans and advances to customers	25,767	340,656	54,883	120,025	510,386	523,863	599,067	2,174,647
Finance lease receivables	251	66	1,141	2,726	11,675	34,163	11,030	61,052
Investments (Note (i))	2,924	205,455	7,475	39,353	222,792	682,911	144,074	1,304,984
Others	58,974	25,411	3,869	12,947	13,847	8,992	3,565	127,605
Total assets	362,642	691,954	201,331	189,772	829,913	1,249,929	757,736	4,283,277
Liabilities								
Due to the central bank	–	–	41,000	–	211,000	–	–	252,000
Deposits from banks and other financial institutions	–	144,528	120,041	242,643	98,121	–	–	605,333
Placements from banks and other financial institutions	–	–	54,258	53,460	51,389	–	–	159,107
Financial assets sold under repurchase agreements	–	33	31,470	1,792	1,309	–	–	34,604
Deposit from customers	–	1,147,869	212,420	289,086	536,606	249,553	–	2,435,534
Debt securities issued	–	–	22,580	123,164	79,112	64,160	88,979	377,995
Others	–	34,780	28,681	9,644	17,877	21,534	1,323	113,839
Total liabilities	–	1,327,210	510,450	719,789	995,414	335,247	90,302	3,978,412
Long/(Short) position	362,642	(635,256)	(309,119)	(530,017)	(165,501)	914,682	667,434	304,865
Notional amount of derivative financial instruments	–	–	281,988	355,640	1,231,991	216,734	392	2,086,745

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk (continued)

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

	31 December 2017							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	311,084	42,619	–	–	–	–	–	353,703
Deposit with banks and other financial institutions	350	13,736	14,739	15,108	–	–	821	44,754
Placements with banks and other financial institutions	–	–	65,773	12,174	70,459	410	–	148,816
Financial asset held under resale agreements	–	–	91,441	–	–	–	–	91,441
Loans and advances to customers	21,518	295,944	57,647	112,607	432,562	488,521	572,019	1,980,818
Finance lease receivables	263	1	1,258	2,789	10,990	32,155	8,908	56,364
Investments (Note (i))	2,983	235,917	23,652	82,275	158,448	702,052	92,609	1,297,936
Others	67,144	10,774	3,369	13,879	8,857	6,949	3,439	114,411
Total assets	403,342	598,991	257,879	238,832	681,316	1,230,087	677,796	4,088,243
Liabilities								
Due to the central bank	–	–	6,000	3,500	223,000	–	–	232,500
Deposits from banks and other financial institutions	–	123,571	119,431	266,849	67,596	–	–	577,447
Placements from banks and other financial institutions	–	6	28,853	43,193	34,746	–	–	106,798
Financial assets sold under repurchase agreements	–	–	41,602	2,575	1,404	–	–	45,581
Deposit from customers	–	1,148,728	156,707	284,619	429,516	253,088	7	2,272,665
Debt securities issued	–	–	60,218	144,029	93,010	59,673	88,466	445,396
Others	–	32,094	20,596	10,364	17,437	20,677	1,252	102,420
Total liabilities	–	1,304,399	433,407	755,129	866,709	333,438	89,725	3,782,807
Long/(Short) position	403,342	(705,408)	(175,528)	(516,297)	(185,393)	896,649	588,071	305,436
Notional amount of derivative financial instruments	–	–	162,872	102,675	390,928	85,756	60	742,291

Note:

(i) *Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk (continued)

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

	30 June 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	252,000	260,304	–	42,330	–	217,974	–	–
Deposits from banks and other financial institutions	605,333	610,608	144,528	120,878	245,510	99,692	–	–
Placements from banks and other financial institutions	159,107	160,434	–	54,730	53,818	51,886	–	–
Financial assets sold under repurchase agreements	34,604	34,654	33	31,499	1,802	1,320	–	–
Deposits from customers	2,435,534	2,496,659	1,152,310	212,601	294,082	555,864	281,802	–
Debt securities issued	377,995	458,999	–	22,640	126,702	122,224	84,114	103,319
Other financial liabilities	65,017	65,935	33,279	19,878	1,011	2,216	8,057	1,494
Total non-derivative financial liabilities	3,929,590	4,087,593	1,330,150	504,556	722,925	1,051,176	373,973	104,813
Derivative financial liabilities								
Derivative financial instruments settled on net basis		129	–	(1)	2	63	64	1
Derivative financial instruments settled on gross basis								
cash inflow		587,813	–	192,605	87,500	300,986	6,722	–
cash outflow		(587,520)	–	(192,797)	(87,597)	(300,487)	(6,639)	–
Total derivative financial liabilities		293	–	(192)	(97)	499	83	–

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities at the end of the reporting period (continued):

	31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	232,500	240,061	-	6,189	3,614	230,258	-	-
Deposits from banks and other financial institutions	577,447	584,305	123,574	120,486	270,895	69,350	-	-
Placements from banks and other financial institutions	106,798	111,049	6	29,633	45,191	36,219	-	-
Financial assets sold under repurchase agreements	45,581	45,773	-	41,763	2,588	1,422	-	-
Deposits from customers	2,272,665	2,334,012	1,150,012	159,665	289,817	447,494	287,014	10
Debt securities issued	445,396	490,928	-	60,400	147,687	97,886	78,428	106,527
Other financial liabilities	55,662	56,343	31,337	14,282	334	2,571	6,389	1,430
Total non-derivative financial liabilities	3,736,049	3,862,471	1,304,929	432,418	760,126	885,200	371,831	107,967
Derivative financial liabilities								
Derivative financial instruments settled on net basis		67	-	1	(8)	25	49	-
Derivative financial instruments settled on gross basis								
cash inflow		423,456	-	164,759	97,627	158,994	2,076	-
cash outflow		(425,538)	-	(164,784)	(98,886)	(159,862)	(2,006)	-
Total derivative financial liabilities		(2,082)	-	(25)	(1,259)	(868)	70	-

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(c) Liquidity risk (continued)

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

	30 June 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	230,065	731	6,972	237,768
Guarantees, acceptances and other credit commitments	558,119	34,870	39,038	632,027
Total	788,184	35,601	46,010	869,795

	31 December 2017			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	209,518	621	5,107	215,246
Guarantees, acceptances and other credit commitments	554,075	27,640	3,651	585,366
Total	763,593	28,261	8,758	800,612

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(d) Operational risk

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

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

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value

(a) Methods and assumptions for measurement of fair value

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

(i) Debt securities and equity investments

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

(ii) Receivables and other non-derivative financial assets

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

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

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

(iv) Derivative financial instruments

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

(b) Fair value measurement

(i) Financial assets

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

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(b) Fair value measurement (continued)

(i) ***Financial assets*** (continued)

Loans and advances to customers, finance lease receivables and financial investments measured at amortized cost except for debt securities investments are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note III 20.

(ii) ***Financial liabilities***

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

The tables below summarise the carrying amounts and fair values of "Debt securities investments measured at amortised cost" (31 December 2017: "Debt securities" classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position:

	Carrying value		Fair value	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Financial assets				
Debt securities investments measured at amortised cost	433,135	–	432,435	–
Debt securities – Held to maturity	–	344,617	–	335,894
Financial liabilities				
Bonds issued	377,995	445,396	375,199	438,041

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities (continued)

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

(c) Fair value hierarchy

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

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

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

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

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

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	3,295	32,662	–	35,957
Financial assets designated at fair value through profit or loss	–	–	7	7
Other financial assets at fair value through profit or loss	206,681	6,469	9,856	223,006
Derivative financial assets				
– foreign currency derivatives	–	7,444	–	7,444
– interest rate derivatives	5	2,732	14	2,751
Debt instruments at fair value through other comprehensive income	27,537	117,992	–	145,529
Equity instruments at fair value through other comprehensive income	14	–	98	112
Precious metals	–	315	–	315
Total	237,532	167,614	9,975	415,121
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	400,728	–	400,728
Financial liabilities at fair value through profit or loss	16	–	–	16
Derivative financial liabilities				
– foreign currency derivatives	–	7,230	–	7,230
– interest rate derivatives	1	2,606	14	2,621
Total	17	410,564	14	410,595

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	2,017	22,168	–	24,185
Financial assets designated at fair value through profit or loss	–	–	11	11
Derivative financial assets				
– foreign currency derivatives	–	4,075	–	4,075
– interest rate derivatives	8	426	4	438
Available-for-sale financial assets				
– debt instruments	17,851	127,480	–	145,331
– fund instruments and others	235,917	32,400	–	268,317
– equity instruments	110	–	–	110
Precious metals	–	21	–	21
Total	255,903	186,570	15	442,488
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	292,593	–	292,593
Derivative financial liabilities				
– foreign currency derivatives	–	6,179	–	6,179
– interest rate derivatives	–	370	3	373
Total	–	299,142	3	299,145

During the reporting period, there were no significant transfers between instruments in Level 1 and Level 2.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the period ended 30 June 2018 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	46,723	4	98	46,825	(3)	(3)
Total gains or losses:						
In profit or loss for the current year	374	10	–	384	(11)	(11)
Purchases	1,748	–	–	1,748	–	–
Settlements	(38,982)	–	–	(38,982)	–	–
30 June 2018	9,863	14	98	9,975	(14)	(14)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	374	10	–	384	(11)	(11)

The movement during the year ended 31 December 2017 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2017	48	15	63	(26)	(26)
Total gains or losses:					
In profit or loss for the current year	1	(11)	(10)	23	23
Purchases	5	–	5	–	–
Settlements	(43)	–	(43)	–	–
31 December 2017	11	4	15	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(11)	(11)	23	23

During the period/year ended 30 June 2018 and 31 December 2017, there were no significant transfers into or out of Level 3.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "Debt securities" classified as financial investments measured at amortised cost (as at 31 December 2017 classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position.

	30 June 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	30,576	401,859	–	432,435
Financial liabilities				
Bonds issued	25,450	349,749	–	375,199

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
– Held to maturity	4,590	331,304	–	335,894
Financial liabilities				
Bonds issued	26,090	411,951	–	438,041

(d) Valuation of financial instruments with significant unobservable inputs

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

As at 30 June 2018, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

53 Entrusted lending business

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

	30 June 2018	31 December 2017
Entrusted loans	141,528	147,268
Entrusted funds	141,528	147,268

54 Commitments and contingent liabilities

(a) Credit commitments

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

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

	30 June 2018	31 December 2017
Loan commitments		
Original contractual maturity within one year	13,965	9,744
Original contractual maturity more than one year (inclusive)	15,260	16,714
Credit card commitments	208,543	188,788
Sub-total	237,768	215,246
Acceptances	412,183	403,717
Letters of guarantees	115,048	103,295
Letters of credit	104,611	78,169
Guarantees	185	185
Total	869,795	800,612

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

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

54 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	30 June 2018	31 December 2017
Credit risk-weighted amount of credit commitments	332,008	313,101

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

(c) Operating lease commitments

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

	30 June 2018	31 December 2017
Within one year (inclusive)	2,224	2,258
After one year but within two years (inclusive)	2,001	1,981
After two years but within three years (inclusive)	1,732	1,719
After three years but within five years (inclusive)	2,597	2,843
After five years	2,343	2,387
Total	10,897	11,188

(d) Capital commitments

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

	30 June 2018	31 December 2017
Contracted but not paid		
– Purchase of property and equipment	658	921
Approved but not contracted for		
– Purchase of property and equipment	1,583	1,371
Total	2,241	2,292

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2018.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

54 Commitments and contingent liabilities (continued)

(e) Underwriting and redemption commitments (continued)

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

As at 30 June 2018, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2018	31 December 2017
Redemption commitments	7,513	8,642

(f) Forward purchase and sale commitments

As at 30 June 2018, the Group has no unexpired forward purchase and sale commitments (31 December 2017: Nil).

(g) Outstanding litigations and disputes

As at 30 June 2018, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB660 million (31 December 2017: RMB719 million), see Note III 38. Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

55 Subsequent Events

On 28 October 2016, the Bank had its proposal for investing no more than RMB1,980 million to Everbright Financial Leasing in cash according to original shareholders' ratio considered and approved by the Board of Directors. On 9 May 2017, the proposal was approved by the former CBRC (currently named "CBIRC"). On 30 March 2018, Everbright Financial Leasing had its proposal to increase the registered capital by RMB1,100 million considered and approved at Shareholders' Meeting. On 21 June 2018, the proposal had also approved by the CBRC Hubei Office. The capital increase of Everbright Financial Leasing was completed in July 2018.

On 21 November 2017, the Bank's proposal to establish Ruijin Everbright Rural Bank Co., Ltd (tentatively named) ("Ruijin Everbright") was approved by CBRC (currently named "CBIRC"). The registered capital shall be no more than RMB150 million and the Bank's equity contribution and shareholding ratios are no less than 70%. On 29 January 2018, the Bank submitted the application for establishing Ruijin Everbright to the CBRC Jiangxi Office, which was approved by the Office on July 2018. As at the disclosure date of the report, the preparation work for the establishment is in progress.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

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

1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio

Liquidity Coverage Ratio

As stipulated by the Rules on Liquidity Risk Management of Commercial Banks, the commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	30 June 2018
Liquidity coverage ratio	115.77%
High Quality Liquid Assets	340,983
Net cash outflows in 30 days from the end of the reporting period	294,535

Liquidity 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
RMB current assets to RMB current liabilities	56.03%	57.08%	59.93%	56.88%
Foreign current assets to foreign current liabilities	77.93%	48.62%	62.45%	53.90%

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

Leverage Ratio

	30 June 2018
Leverage Ratio	6.16%

Pursuant to the Leverage Ratio Management of Commercial Banks which was effective since 1 April, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio (continued)

Net Stable Funding Ratio

The net stable funding ratio ("NSFR") supervision index is introduced to ensure that commercial banks have sufficient and stable funding to meet the requirements of various assets and off-balance sheet risk exposures for stable funding. According to the Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks, the net stable funding ratio shall be no less than 100% from 1 July 2018.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds × 100%

Available and stable funds refers to sum of products of carrying value of various assets and liabilities of commercial banks and corresponding available and stable funds coefficients. Required stable funds refers to sum of products of carrying value of various assets and off-balance sheet risk exposures of commercial banks and corresponding required stable funds coefficients.

As at 30 June 2018, the Group meet the supervision requirement with the net stable funding ratio standing at 100.33%.

Indicators	Value
Available and stable funds	2,209,224
Required stable funds	2,201,888
Net stable funding ratio	100.33%

2 Currency concentrations

	30 June 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	176,184	9,512	43,110	228,806
Spot liabilities	(244,480)	(33,539)	(13,081)	(291,100)
Forward purchases	371,414	8,174	2,112	381,700
Forward sales	(356,818)	(2,100)	(10,879)	(369,797)
Net (short)/long position	(53,700)	(17,953)	21,262	(50,391)
Net structural position	11	22	34	67

(Expressed in millions of Renminbi, unless otherwise stated)

2 Currency concentrations (continued)

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	132,355	30,140	20,384	182,879
Spot liabilities	(171,558)	(33,786)	(12,320)	(217,664)
Forward purchases	231,721	22,458	2,138	256,317
Forward sales	(185,860)	(16,526)	(9,682)	(212,068)
Net long position	6,658	2,286	520	9,464
Net structural position	11	26	38	75

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul and Luxembourg branch. Structural assets mainly include fixed assets.

3 International claims

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

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 30 June 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	59,003	291	32,661	91,955
– of which attributed to Hong Kong	9,966	169	26,476	36,611
Europe	2,658	39	10,429	13,126
North and South America	8,145	132	11,699	19,976
Others	–	–	56	56
Total	69,806	462	54,845	125,113

3 International claims (continued)

	As at 31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	51,220	287	26,256	77,763
– of which attributed to Hong Kong	4,473	166	21,048	25,687
Europe	2,436	–	9,503	11,939
North and South America	2,795	194	11,621	14,610
Total	56,451	481	47,380	104,312

4 Gross amount of overdue loans and advances

(a) By geographical segments

	30 June 2018	31 December 2017
Head Office	6,408	4,899
Yangtze River Delta	4,758	5,146
Pearl River Delta	4,442	6,772
Western	4,438	5,066
Bohai Rim	4,162	4,240
Northeastern	3,183	3,236
Central	2,944	4,127
Overseas	8	8
Total	30,343	33,494

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances (continued)

(b) By overdue 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)	11,590	7,114
– between 6 months and 1 year (inclusive)	5,862	9,906
– over 1 year	12,891	16,474
Total	30,343	33,494
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.52%	0.35%
– between 6 months and 1 year (inclusive)	0.26%	0.49%
– over 1 year	0.58%	0.81%
Total	1.36%	1.65%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	30 June 2018	31 December 2017
Covered portion of loans and advances past due but not impaired	6,112	10,131
Uncovered portion of loans and advances past due but not impaired	13,545	11,316
Total loans and advances past due but not impaired	19,657	21,447
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	22,828	27,801

5 Non-bank mainland China exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 30 June 2018, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.

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