中国光大银行
CHINA EVERBRIGHT BANK

Building a Leading Wealth Management Bank

Stock Code: 6818

2020中期報告
2020 INTERIM REPORT

中國光大銀行股份有限公司
China Everbright Bank Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)

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 18th Meeting of the Eighth Session of the Board of Directors of the Bank was convened in Beijing on 28 August 2020, at which the 2020 Interim Report of the Bank was considered and approved. 13 out of 13 Directors attended the meeting in person. Independent Non-Executive Director Wang Liguo was authorized in writing by Independent Non-Executive Director Feng Lun, who was unable to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his behalf. 6 Supervisors were present at the meeting as non-voting attendees.

iii. The financial statements of the Bank for the first half of 2020 were prepared in accordance with the PRC Generally Accepted Accounting Principles ("PRC GAAP") and the International Financial Reporting Standards ("IFRS") and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively.

iv. Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Liu Jin, President, and Mr. Sun Xinhong, General Manager of Finance and Accounting Department, hereby warrant the authenticity, accuracy and completeness of the financial report in this Report. President Liu Jin is in charge of finance.

v. Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.

vi. The Bank did not implement any profit distribution or capitalization of capital reserves for the first half of 2020.

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

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

ix. 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
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
China Everbright Group	:	China Everbright Group Ltd.
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited
EY Hua Ming	:	Ernst & Young Hua Ming (LLP)
EY	:	Ernst & Young

Company Profile

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: Liu Jin, Li Jiayan
Secretary to the Board of Directors and Company Secretary: Li Jiayan
Securities Affairs Representative: Li Jiayan
Assistant to Company Secretary: Lee Mei Yi

III. CONTACTS

Contact Address: China Everbright Center, No. 25 Taipingqiao Street, Xicheng District, Beijing
Postal Code: 100033
Tel.: 86-10-63636363
Facsimile: 86-10-63636713
E-mail: IR@cebbank.com
Investor Hotline: 86-10-63636388
Customer Service/Complaint Hotline: 95595

IV. CORPORATE INFORMATION

Registered and Office Address: China Everbright Center, No. 25 and No. 25 A Taipingqiao Street, Xicheng District, Beijing
Uniform Social Credit Code: 91110000100011743X
Code of Financial Authority: B0007H111000001
Scope of Business: Taking deposits from the public; granting short-term, medium-term and long-term loans; handling domestic and overseas settlement; handling bill acceptance and discount; issuing financial bonds; issuing, honoring and underwriting government bonds as an agent; trading of government bonds and financial bonds; interbank borrowing and lending; trading and agency trading of foreign exchange; bank card business; providing L/C services and guarantee; agency collection and payment and insurance services; safe deposit box services; other businesses approved by CBIRC.

V. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

CEB Hong Kong Branch: 23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong

VI. WEBSITE AND NEWSPAPER DESIGNATED FOR INFORMATION DISCLOSURE

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

VII. STOCK EXCHANGE FOR LISTING OF SHARES

A Shares: Shanghai Stock Exchange (SSE)
Abbreviated name of Ordinary Shares: Everbright Bank; Code: 601818
Abbreviated name of Preference Shares: Everbright P1; Everbright P2, Everbright P3;
Code: 360013, 360022, 360034 (SSE Comprehensive Business Platform)
Abbreviated name of Bond: Everbright Convertible Bonds; Code: 113011
H shares: 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
Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing
Certified Public Accountants for Signature: Xu Xuming, Leung Shing Kit
Overseas Auditor: Ernst & Young
Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Certified Public Accountant for Signature: Kam Cheong Geoffrey

IX. LEGAL ADVISORS TO THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

A Share Legal Advisor: Jun He Law Offices
H Share Legal Advisor: Clifford Chance LLP

X. SHARE DEPOSITORY

A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited
Office Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai
H Share Registrar: Computershare Hong Kong Investor Services Limited
Office Address: Rooms 1712-1716, 17/F, Hopewell Center, 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 2020	January – June 2019	Change (%)	January – June 2018
Operating performance (RMB million)				
Net interest income	54,666	49,183	11.15	34,484
Net fee and commission income	14,133	12,749	10.86	10,478
Operating income	72,157	66,224	8.96	52,303
Operating expenses	(19,446)	(18,363)	5.90	(16,075)
Impairment losses on assets	(30,673)	(23,379)	31.20	(14,568)
Profit before tax	22,038	24,482	(9.98)	21,660
Net profit	18,421	20,484	(10.07)	18,101
Net profit attributable to equity shareholders of the Bank	18,363	20,444	(10.18)	18,075
Per share (in RMB)				
Basic earnings per share[1]	0.31	0.37	(16.22)	0.32
Diluted earnings per share[2]	0.28	0.33	(15.15)	0.29
Item	**30 June 2020**	**31 December 2019**	**Change (%)**	**31 December 2018**
Net assets per share attributable to ordinary shareholders of the Bank[3]	6.20	6.10	1.64	5.55
Scale indicators (RMB million)				
Total assets	5,388,434	4,733,431	13.84	4,357,332
Total loans and advances to customers	2,921,562	2,712,204	7.72	2,421,329
Provision for impairment of loans[4]	84,293	76,228	10.58	67,209
Total liabilities	4,996,991	4,347,377	14.94	4,034,859
Balance of deposits from customers	3,672,102	3,017,888	21.68	2,571,961
Total equity	391,443	386,054	1.40	322,473
Total equity attributable to equity shareholders of the Bank	390,312	384,982	1.38	321,488
Share capital	52,489	52,489	–	52,489
Item	**January – June 2020**	**January – June 2019**	**Change**	**January – June 2018**
Profitability indicators (%)				
Return on average total assets	0.73	0.91	-0.18 percentage point	0.87
Return on weighted average net assets[5]	10.05	12.90	-2.85 percentage points	12.36
Net interest spread	2.20	2.15	+0.05 percentage point	1.76
Net interest margin	2.30	2.28	+0.02 percentage point	1.80
Proportion of fee and commission income in operating income	19.59	19.25	+0.34 percentage point	20.03
Cost-to-income ratio	25.91	26.68	-0.77 percentage point	29.66
Item	**30 June 2020**	**31 December 2019**	**Change**	**31 December 2018**
Asset quality indicators (%)				
Non-performing loan ratio	1.55	1.56	-0.01 percentage point	1.59
Provision coverage ratio[6]	186.77	181.62	+5.15 percentage points	176.16
Provision-to-loan ratio[7]	2.90	2.83	+0.07 percentage point	2.80

Summary of Accounting Data and Financial Indicators

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 shareholders of the Bank – dividends of the preference shares distributed during the period.

   The Bank distributed dividends of RMB768.66 million (before tax) on the preference shares (Everbright P3) on 17 April 2020 and RMB1,060 million (before tax) on the preference shares (Everbright P1) on 29 June 2020, totaling RMB1,828.66 million.

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 data is annualized.

6. Provision coverage ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/balance of non-performing loans (NPLs).

7. Provision-to-loan ratio = (provision for impairment of loans 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 above figures with notes 1, 2, 3 and 5 were calculated according to the *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share* (2010 Revision) issued by CSRC.

II. SUPPLEMENTARY FINANCIAL INDICATORS

Unit: %

Item		Standard value	30 June 2020	31 December 2019	31 December 2018
Liquidity ratio[Note]	RMB	≥25	70.90	72.63	64.26
	Foreign currency	≥25	110.41	93.29	62.15
Loan exposure to largest single customer ratio		≤10	2.72	1.86	2.12
Loan exposure to top ten customers ratio		≤50	11.41	10.91	11.88

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

III. CAPITAL COMPOSITION AND CHANGES

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

Unit: RMB million, %

Item		30 June 2020		31 December 2019	
		Consolidated[1]	Non-consolidated	Consolidated[1]	Non-consolidated
1.	Net capital base[2]	474,359	454,706	465,505	447,133
1.1	Common equity tier-1 capital	326,205	321,175	320,793	316,396
1.2	Common equity tier-1 capital deductions	(2,943)	(15,310)	(2,930)	(15,299)
1.3	Net common equity tier-1 capital[2]	323,262	305,865	317,863	301,097
1.4	Additional tier-1 capital	65,013	64,906	65,002	64,906
1.5	Additional tier-1 capital deductions	–	–	–	–
1.6	Net tier-1 capital[2]	388,275	370,771	382,865	366,003
1.7	Tier-2 capital	86,084	83,935	82,640	81,130
1.8	Tier-2 capital deductions	–	–	–	–
2.	Credit risk-weighted assets	3,458,732	3,352,106	3,208,191	3,112,086
3.	Market risk-weighted assets	54,083	51,341	38,523	36,770
4.	Operational risk-weighted assets	209,340	205,952	209,340	205,952
5.	Total risk-weighted assets	3,722,155	3,609,399	3,456,054	3,354,808
6.	Common equity tier-1 CAR	8.68	8.47	9.20	8.98
7.	Tier-1 CAR	10.43	10.27	11.08	10.91
8.	CAR	12.74	12.60	13.47	13.33

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., Everbright Wealth Management Co., Ltd., CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A., Shaoshan Everbright Rural Bank Co., Ltd., Jiangsu Huai'an Everbright Rural Bank Co., Ltd. and Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

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

Unit: RMB million, %

Item	30 June 2020	31 March 2020	31 December 2019	30 September 2019
Leverage ratio	5.99	6.29	6.83	6.75
Net tier-1 capital	388,275	395,121	382,865	377,504
Adjusted balance of on- and off- balance sheet assets	6,482,856	6,283,331	5,607,516	5,595,877

Please refer to "Unaudited Supplementary Financial Information" for more details on leverage ratio.

V. LIQUIDITY COVERAGE RATIO

The liquidity coverage ratios calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks* (Decree No.3 of CBIRC in 2018) are as follows:

Unit: RMB million, %

Item	30 June 2020	31 March 2020	31 December 2019	30 September 2019
Liquidity coverage ratio	171.87	172.83	125.12	136.49
Eligible high quality liquid assets	833,515	756,158	630,894	526,179
Net cash outflow in the next 30 days	484,964	437,516	504,250	385,499

VI. NET STABLE FUNDING RATIO

The net stable funding ratios calculated in accordance with the *Measures for the Information Disclosure Regarding Net Stable Funding Ratios of Commercial Banks* (No.11 of CBIRC in 2019) are as follows:

Unit: RMB million, %

Item	30 June 2020	31 March 2020	31 December 2019	30 September 2019
Net stable funding ratio	109.19	107.87	105.34	105.56
Available stable funding	3,001,492	2,943,886	2,693,533	2,698,839
Required stable funding	2,748,866	2,729,074	2,556,972	2,556,579

Please refer to "Unaudited Supplementary Financial Information" for more details on net stable funding ratio.

Business Overview of the Bank

I. REVIEW OF MAIN WORK

i. Serving the real economy and shouldering social responsibilities

The Bank focused efforts on "credit increase, cost cut, and convenient services" and adopted a multi-pronged approach to reduce fees, share benefits and improve service quality and efficiency. It tremendously powered the development of manufacturing industry and saw a marked increase in manufacturing loans and an obvious decrease in the interest rates of new loans. What's more, the Bank studied and developed the measures for alleviating the financing difficulty and cost of small and micro enterprises, provided special credit increment to these enterprises eligible for the inclusive financial policy separately, and reduced or even freed them of multiple fee items. It also raised the tolerance of non-performing loans (NPLs). All the efforts were to meet the regulatory target of "Two No-less-thans and Two Controls" for inclusive finance. The Bank devised service solutions specific to different types of private enterprises and issued the interim measures for due diligence and liability exemption of credit business, enhancing enthusiasm in supporting private enterprises. The growth of loans to private enterprises outstripped that of the whole bank's corporate loans.

ii. Supporting anti-pandemic enterprises and facilitating work and production resumption

Through motivating the whole bank and gathering superior resources, the Bank provided credit facility of more than RMB95 billion accumulatively to the enterprises which ensured medical supplies and daily necessities, and over RMB150 billion accumulatively to four heavily-hit industries, namely, wholesale and retail, accommodation and catering, logistics and transportation, and cultural tourism industries. It also provisionally postponed the principal repayment of RMB13,519 million and interest payment of RMB903 million of micro, small and medium-sized enterprises. Its overseas institutions also provided low-cost financing fund of RMB11,391 million for domestic enterprises through the coordination of domestic and overseas institutions. Besides, the Bank launched a series of financial service packages entitled "Sunshine Traditional Chinese Medicine", providing customers across the whole industrial chain of traditional Chinese medicine with eight categories of high-quality financial services, e.g. cash management, supply chain financing, inclusive finance and credit cards. Online services, with the strong support of technology, allowed enterprises to open account, conduct settlement and complete other business indoors through ways of "account-opening willingness verification via remote video" and the like.

iii. Improving the brand value and highlighting the wealth characteristic

The Bank put more emphasis on the guiding role of wealth management, highlighted the characteristic as a wealth management bank, strengthened investor relations maintenance and improved the market capitalization management. The transformation of retail banking achieved initial success, underlining the characteristic of being a wealth management bank, and there was new progress towards digitalization. The Bank was ranked 35th among the "Top 1,000 World Banks" published by the British magazine *The Banker*, up 4 places compared with last year. It also received its best ranking ever in CBIRC's annual regulatory rating.

iv. Enhancing operation capacity and advancing restructuring

All business indicators of the Bank maintained a sound momentum. Specifically, deposits and loans grew fast, and the growth of corporate deposits was among the best both in amount and rate in comparable peers; personal deposit volume surged to the leading level in the industry; operating income and fee-based business income presented a sound growth, with the latter growing faster than the former; the NPL ratio remained stable overall and provision coverage ratio increased. Because of deposit structure improvement, structural deposits accounted less in total deposits.

v. Adhering to compliant operation and cementing the management and control foundation

The Bank updated the Sunshine Risk Warning Management System, optimized the risk pre-warning and monitoring system and developed a four-layer risk monitoring network. It strengthened the off-site monitoring of branches' lending review and processing centers and supervised branches in increasing the precision of their compliance operations. Meanwhile, the Bank intensified internal control and risk management, carried out a campaign to clear identity information of existing customers and a special investigation of corporate banking account lease and sale, and pursued the accountability for anti-money laundering (AML) law enforcement and inspection. It also stepped up the management and control of IT risks and took steps to ensure the security of the internet and mobile applications and the secure and stable operation of systems.

II. BUILDING OF A WEALTH MANAGEMENT BANK

i. Increasingly refined strategic management system

The Bank advanced the strategy implementation with solid steps aimed at fostering the characteristic of wealth management. It formulated the *Plan for Optimization of the Strategic Management System* and proposed the "1+6" optimization framework. "1" refers to optimizing the strategic indicators system, ensuring that the Bank's long-term development mindset can be tested and manifested in its operating results and financial performance, and closely connecting the whole bank's business management practices with strategic development targets; "6" refers to optimizing the six management systems of customers, products, channels, innovation, investor relations and international business, adjusting organizational structure and management functions with more focus placed on positioning itself as a wealth management bank.

ii. Remarkably effective transformation of retail banking

The Bank kept promoting business transformation in its retail banking sector. As at the end of the reporting period, the operating income of retail banking reached RMB29.283 billion, a year-on-year increase of 8.30%, accounting for 40.58% of the operating income of whole bank. The number of retail customers increased by 13.34% as compared with the end of the previous year to 114 million; wealth customers and private banking customers numbered at 890,400 and 36,659 respectively, up by 14.78% and 13.82% respectively, marking a continuous upgrading of the customer structure and improvement of the customer quality. The assets under management (AUM) of retail customers of the Bank reached RMB1.88 trillion, up by 10.46% as compared with the end of the previous year.

iii. Notable superiority of hit wealth management products

The Cloud Fee Payment platform maintained the leading edge as China's largest open-ended platform for fee payment. The "Colorful Sunshine" net-asset-value (NAV) product system was continuously diversified and improved, while such products as Sunshine Gold and CEB Cash Wealth Management performed excellently in the market. Sunshine Annuity delved deeply into Chinese pension programs, and the Bank continued to put more occupational annuities under custody after winning the bids for occupational annuity custodian for 30 provinces and autonomous regions. The Bank provided supply chain financial services extensively in transaction banking business, with the "Sunshine Supply Chain" and "Forfaiting Blockchain" platforms registering the industry-leading transaction volumes. Such featured products as Payment Guarantee for Migrant Workers' Wages, Sunshine Going-abroad Cloud, Sunshine Exchange Gain and Auto Full Link continued to play their roles in serving the development of real economy.

iv. Enhanced synergies of Wealth E-SBU

The Bank continued to expand the coverage of the Wealth E-SBU platform and accelerated the building of a "mega-wealth" ecosphere. In respect of customer migration, more than 1,600 corporate customers and 583,000 retail customers were introduced, adding RMB15.98 billion to AUM. Among the new retail customers, there were 449 high-net-worth individuals (HNWIs). With regards to cross selling, more than 180 trust, insurance and securities products valued at over RMB38 billion were sold on behalf of subsidiaries of China Everbright Group. As at the end of the reporting period, the amount of coordinated transactions totaled RMB1.59 trillion, up by 25.50% year on year; coordinated transactions realized an operating income of RMB4.88 billion and a fee-based business income of RMB1.51 billion, up by 77.30% and 67.80% year on year respectively.

III. ANALYSIS ON CORE COMPETITIVENESS

Distinguished background of shareholders engaged in diversified operation and coordinated development of finance and industry with a full range of financial licenses: China Everbright Group is a large financial holding group directly under the administration of the central government, and also one of the Fortune 500 companies across the world. The Group runs financial business in a diversity of forms, and possesses a full range of financial licenses. Meanwhile, 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 industry.

Unified Sunshine brand: Upholding the business philosophy of "Sharing Sunshine, Innovating Life", the Bank has stepped up its brand building efforts to create the "Sunshine" brand series. It has developed a favorable image in the market, gained fairly great reputation, and demonstrated considerable brand competitiveness.

Outstanding innovative DNA: The Bank was established in the trends of competitive financial market in China, and grew stronger in the pursuit of exploration and innovation. Inspired by innovation awareness, it secured impressively innovative achievements, being the first bank that launched the RMB wealth management products, the first one to be fully-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 forged China's largest open-ended payment platform "Cloud Fee Payment" and endeavored to build Wealth E-SBU.

Advantages in some businesses: The Bank has obtained comparative advantages in wealth management business inspired by the strategy of "building a first-class wealth management bank". Its investment banking business as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system based on an open-ended platform, which has developed into an industry leading business model. The credit card business of the Bank has gained a leading position among its peers by technology-driven innovation and service-based image building. In addition, the Bank keeps improving its capabilities for value creation and high-quality development in retail business, with its proportion in operating income of the Bank showing advantages among peers, which makes positive contributions to the stable and sustainable development of the Bank.

Prudent and efficient system for comprehensive risk management: Sticking to the principle of "all-round, whole-process, all staff participation", the Bank keeps improving its risk management system and mechanism, proactively pushes forward the implementation of the New Basel Accord, and has established a sound and comprehensive risk management system, which is able to deliver prudent and highly efficient risk management.

Advanced IT management and independent R&D capabilities: As the first Chinese commercial bank to realize "data centralization", the Bank has led the industry in terms of safe operation and maintenance as well as technological support capabilities. In recent years, its independent R&D capabilities have been continuously enhanced with the establishment of multiple independent R&D platforms.

Discussion and Analysis of Operations

I. OVERALL OPERATIONS OF THE BANK

i. Capabilities to serve the real economy were enhanced, and the liability structure kept improving

As at the end of the reporting period, total assets of the Group posted RMB5,388,434 million, representing an increase of RMB655,003 million or 13.84% as compared with the end of the previous year. Total loans and advances to customers stood at RMB2,921,562 million, representing an increase of RMB209,358 million or 7.72% as compared with the end of the previous year, indicating improved capabilities to serve the real economy. The balance of deposits reached RMB3,672,102 million, representing an increase of RMB654,214 million or 21.68% as compared with the end of the previous year, accounting for 73.49% of the total liabilities, up by 4.07 percentage points as compared with the end of the previous year, indicating improved liability structure.

ii. Operating income continued to increase, and provisions were prudently and objectively set aside

The Group earnestly carried out the decisions on reasonable fee deductions and interest concessions in the banking industry released by the CPC Central Committee and the State Council. Fully performing its social responsibilities as a state-owned financial institution, the Group offered a series of preferential policies including lowering interest rates, fee remission, as well as postponing loan repayment of principal and interest. During the reporting period, operating income of the Group registered RMB72,157 million, a year-on-year increase of 8.96%. Specifically, net interest income posted RMB54,666 million, up by 11.15% year on year; net interest margin was 2.30%, up by 2 bps year on year; net fee and commission income posted RMB14,133 million, up by 10.86% year on year.

Taking into account the continuous and lagging impact of the COVID-19 pandemic, and following the requirements of “making response ahead of the market curve”, the Group further pursued a sound provisioning policy and adopted forward-looking approaches to increase its provision in response to external environmental changes. During the reporting period, the Group sustained impairment losses on assets totaling RMB30,673 million and realized net profit of RMB18,421 million.

iii. Asset quality remained stable, and risk resistance got intensified

As at the end of the reporting period, the balance of the Group's non-performing loans (NPLs) amounted to RMB45,413 million, an increase of RMB3,201 million as compared with the end of the previous year. The NPL ratio reported 1.55%, down by 0.01 percentage point as compared with the end of the previous year. Provision coverage ratio reached 186.77%, up by 5.15 percentage points over the end of the previous year. Asset quality was further consolidated and risk resistance enhanced. Risk indicators remained overall stable.

iv. Capital management was overall effective, and continuously conformed to regulatory requirements

As at the end of the reporting period, the Group's CAR, tier-1 CAR and common equity tier-1 CAR was 12.74%, 10.43% and 8.68% respectively, all of which met the regulatory requirements.

II. INCOME STATEMENT ANALYSIS

i. Changes in items of income statement

Unit: RMB million

Item	January – June 2020	January – June 2019	Change
Net interest income	54,666	49,183	5,483
Net fee and commission income	14,133	12,749	1,384
Net trading gains	57	69	(12)
Dividend income	1	11	(10)
Net gains arising from investment securities	2,779	2,974	(195)
Net foreign exchange gains	71	778	(707)
Other net operating gains	450	460	(10)
Operating expenses	19,446	18,363	1,083
Impairment losses on assets	30,673	23,379	7,294
Profit before tax	22,038	24,482	(2,444)
Income tax	3,617	3,998	(381)
Net profit	18,421	20,484	(2,063)
Net profit attributable to shareholders of the Bank	**18,363**	**20,444**	**(2,081)**

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB72,157 million, a year-on-year increase of RMB5,933 million or 8.96%. Net interest income accounted for 75.76%, up by 1.49 percentage points year on year. Net fee and commission income accounted for 19.59%, up by 0.34 percentage point year on year.

Unit: %

Item	January – June 2020	January – June 2019
Net interest income	75.76	74.27
Net fee and commission income	19.59	19.25
Other income	4.65	6.48
Total operating income	**100.00**	**100.00**

Discussion and Analysis of Operations

iii. Net interest income

During the reporting period, the Group realized net interest income of RMB54,666 million, a year-on-year increase of RMB5,483 million or 11.15%, which was mainly attributable to the increase in loans and advances to customers.

The Group's net interest spread reported 2.20%, a year-on-year increase of 5 bps. Its net interest margin was 2.30%, up by 2 bps year on year, mainly due to the improvement of asset and liability structure and the decline in debt-to-cost ratio.

Unit: RMB million, %

Item	January – June 2020			January – June 2019		
	Average balance	Interest income/ expenses	Average yield/cost	Average balance	Interest income/ expenses	Average yield/cost
Interest-earning assets						
Loans and advances to customers	2,846,390	78,164	5.52	2,505,949	70,561	5.68
Finance lease receivables	90,851	2,714	6.01	77,403	2,073	5.40
Investments	1,279,267	26,047	4.09	1,104,495	23,895	4.36
Deposits with the central bank	360,973	2,570	1.43	346,736	2,493	1.45
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	199,045	1,625	1.64	319,492	4,028	2.54
Total interest-earning assets	4,776,526	111,120	4.68	4,354,075	103,050	4.77
Interest income		**111,120**			**103,050**	
Interest-bearing liabilities						
Deposits from customers	3,344,949	39,368	2.37	2,734,101	30,763	2.27
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	861,213	11,166	2.61	977,406	14,861	3.07
Debt securities issued	363,860	5,920	3.27	435,522	8,243	3.82
Total interest-bearing liabilities	4,570,022	56,454	2.48	4,147,029	53,867	2.62
Interest expenses		**56,454**			**53,867**	
Net interest income		**54,666**			**49,183**	
Net interest spread[1]			**2.20**			**2.15**
Net interest margin[2]			**2.30**			**2.28**

Notes:

1. Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

2. Net interest margin is the net interest income divided by the average balance of total interest-earning assets.

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

Unit: RMB million

Item	Scale factor	Interest rate factor	Change in interest
Loans and advances to customers	9,349	(1,746)	7,603
Finance lease receivables	402	239	641
Investments	3,559	(1,407)	2,152
Deposits with the central bank	101	(24)	77
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(983)	(1,420)	(2,403)
Interest-earning assets	9,828	(1,758)	8,070
Changes in interest income			**8,070**
Deposits from customers	7,189	1,416	8,605
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	(1,506)	(2,189)	(3,695)
Debt securities issued	(1,166)	(1,157)	(2,323)
Interest-bearing liabilities	5,225	(2,638)	2,587
Changes in interest expenses			**2,587**
Changes in net interest income			**5,483**

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB111,120 million, a year-on-year increase of RMB8,070 million or 7.83%. Such increase was mainly attributed 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 amounted to RMB78,164 million, a year-on-year increase of RMB7,603 million or 10.78%. Such increase was mainly due to the expanding loan scale.

Unit: RMB million, %

Item	January – June 2020			January – June 2019		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,602,063	38,801	4.87	1,390,787	34,631	5.02
Personal loans	1,161,770	38,142	6.60	1,064,709	34,977	6.62
Discounted bills	82,557	1,221	2.97	50,453	953	3.81
Loans and advances to customers	**2,846,390**	**78,164**	**5.52**	**2,505,949**	**70,561**	**5.68**

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB26,047 million, a year-on-year increase of RMB2,152 million or 9.01%. Such increase was mainly due to the expanding investment scale.

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

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB1,625 million, a year-on-year decrease of RMB2,403 million or 59.66%. The drop was mainly attributed to the decrease of the scale and yield of the above-mentioned assets.

v. Interest expenses

During the reporting period, the Group's interest expenses amounted to RMB56,454 million, representing a year-on-year increase of RMB2,587 million or 4.80%.

1. Interest expenses on deposits from customers

During the reporting period, the Group's interest expenses on deposits from customers amounted to RMB39,368 million, a year-on-year increase of RMB8,605 million or 27.97%. Such increase was mainly due to the expanding scale of deposits from customers.

Unit: RMB million, %

Item	January – June 2020			January – June 2019		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
Corporate deposits	2,572,314	29,166	2.28	2,089,111	22,528	2.17
Demand deposits	813,070	3,194	0.79	720,617	2,721	0.76
Time deposits	1,759,244	25,972	2.97	1,368,494	19,807	2.92
Personal deposits	772,635	10,202	2.66	644,990	8,235	2.57
Demand deposits	226,016	451	0.40	182,358	388	0.43
Time deposits	546,619	9,751	3.59	462,632	7,847	3.42
Total deposits from customers	**3,344,949**	**39,368**	**2.37**	**2,734,101**	**30,763**	**2.27**

2. Interest expenses 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 expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB11,166 million, representing a decrease of RMB3,695 million or 24.86% year on year. The decrease was mainly due to the improvement of liability structure and the decline of inter-bank interest rates.

3. Interest expenses on debt securities issued

During the reporting period, the Group's interest expenses on debt securities issued totaled RMB5,920 million, a year-on-year decrease of RMB2,323 million or 28.18%. Such decrease was mainly due to the decrease in the scale of issuance and interest rate of inter-bank certificates of deposits.

vi. Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB14,133 million, a year-on-year increase of RMB1,384 million or 10.86%. Such rise was mainly due to the increase in wealth management service fees, which grew by RMB1,197 million or 450.00% year on year.

Unit: RMB million

Item	January – June 2020	January – June 2019
Fee and commission income	**15,377**	**14,097**
Underwriting and advisory fees	907	1,096
Bank card service fees	6,253	6,957
Settlement and clearing fees	1,291	1,067
Wealth management service fees	1,463	266
Acceptance and guarantee fees	985	824
Agency services fees	2,144	1,919
Custody and other fiduciary business fees	958	855
Others	1,376	1,113
Fee and commission expenses	**(1,244)**	**(1,348)**
Net fee and commission income	**14,133**	**12,749**

vii. Other income

During the reporting period, the Group's other income stood at RMB3,358 million, representing a year-on-year decrease of RMB934 million. The decrease was mainly due to the decline of net foreign exchange gains.

Unit: RMB million

Item	January – June 2020	January – June 2019
Net trading gains	57	69
Dividend income	1	11
Net gains arising from investment securities	2,779	2,974
Net foreign exchange gains	71	778
Other operating income	450	460
Total	**3,358**	**4,292**

viii. Operating expenses

During the reporting period, the Group incurred operating expenses of RMB19,446 million, an increase of RMB1,083 million or 5.90% year on year. Cost-to-income ratio stood at 25.91%, down by 0.77 percentage point year on year.

Unit: RMB million

Item	January – June 2020	January – June 2019
Staff costs	11,294	10,644
Premises and equipment expenses	2,978	2,762
Tax and surcharges	752	695
Others	4,422	4,262
Total operating expenses	**19,446**	**18,363**

Discussion and Analysis of Operations

ix. Impairment losses on assets

During the reporting period, the Group pursued objective and prudent provisioning policy, continued to consolidate the provision foundation and increased risk resistance. It sustained impairment losses on assets totaling RMB30,673 million, representing a year-on-year increase of RMB7,294 million or 31.20%.

Unit: RMB million

Item	January – June 2020	January – June 2019
Impairment losses on loans and advances to customers	29,275	22,896
Loans and advances to customers measured at amortized cost	29,189	22,780
Loans and advances to customers at fair value through other comprehensive income	86	116
Impairment losses on finance lease receivables	622	344
Impairment losses on debt instruments at fair value through other comprehensive income	(344)	133
Impairment losses on financial investments measured at amortized cost	413	(46)
Others	707	52
Total impairment losses on assets	**30,673**	**23,379**

x. Income tax

During the reporting period, the Group incurred an income tax of RMB3,617 million, a decrease of RMB381 million or 9.53% year on year, which is mainly due to the decrease in profit before tax.

III. BALANCE SHEET ANALYSIS

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB5,388,434 million, an increase of RMB655,003 million or 13.84% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers as well as investments in securities and other financial assets.

Unit: RMB million, %

Item	30 June 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	2,921,562		2,712,204	
Loan accrued interest	8,488		8,160	
Provision for impairment of loans[Note]	(84,293)		(76,228)	
Net loans and advances to customers	2,845,757	52.81	2,644,136	55.86
Finance lease receivables	94,449	1.75	83,723	1.77
Deposits with banks and other financial institutions	43,658	0.81	31,358	0.66
Cash and deposits with the central bank	379,643	7.05	364,340	7.70
Investments in securities and other financial assets	1,650,739	30.63	1,447,351	30.57
Precious metals	13,430	0.25	10,826	0.23
Placements with banks and other financial institutions, and financial assets held under resale agreements	251,929	4.68	67,105	1.42
Fixed assets	19,387	0.36	19,342	0.41
Right-of-use assets	11,462	0.21	11,684	0.25
Goodwill	1,281	0.03	1,281	0.03
Deferred tax assets	19,717	0.37	16,306	0.34
Other assets	56,982	1.05	35,979	0.76
Total assets	**5,388,434**	**100.00**	**4,733,431**	**100.00**

Note: It only includes provision for impairment of loans 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 RMB2,921,562 million, an increase of RMB209,358 million or 7.72% as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 52.81%, a decrease of 3.05 percentage points as compared with the end of the previous year.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Type	**Balance**	**Percentage**	**Balance**	**Percentage**
Corporate loans	1,649,826	56.47	1,490,033	54.94
Personal loans	1,190,196	40.74	1,157,508	42.68
Discounted bills	81,540	2.79	64,663	2.38
Total loans and advances to customers	**2,921,562**	**100.00**	**2,712,204**	**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 RMB1,650,739 million, an increase of RMB203,388 million as compared with the end of the previous year, accounting for 30.63% of total assets, up by 0.06 percentage point as compared with the end of the previous year.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Item	**Balance**	**Percentage**	**Balance**	**Percentage**
Financial assets at fair value through profit or loss	318,028	19.27	211,406	14.61
Derivative financial assets	14,659	0.89	13,805	0.95
Debt instruments at fair value through other comprehensive income	207,534	12.57	180,005	12.44
Financial investments measured at amortized cost	1,109,644	67.22	1,041,512	71.96
Equity instruments at fair value through other comprehensive income	874	0.05	623	0.04
Total investment in securities and other financial assets	**1,650,739**	**100.00**	**1,447,351**	**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 RMB375,980 million, up by RMB74,460 million over the end of the previous year. Of these, the financial bonds measured at amortized cost occupied a proportion of 78.94% in the total.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Item	**Balance**	**Percentage**	**Balance**	**Percentage**
Financial assets at fair value through profit or loss	7,599	2.02	8,792	2.91
Financial investments measured at amortized cost	296,794	78.94	233,514	77.45
Debt instruments at fair value through other comprehensive income	71,587	19.04	59,214	19.64
Total financial bonds held	**375,980**	**100.00**	**301,520**	**100.00**

4. Top 10 financial bonds held in nominal value

Unit: RMB million, %

Name of bond	Nominal value	Annual interest rate	Maturity date	Allowance for impairment losses
Bond 1	17,640	4.04	2027-04-10	–
Bond 2	15,820	4.98	2025-01-12	–
Bond 3	13,350	4.39	2027-09-08	–
Bond 4	13,210	4.24	2027-08-24	–
Bond 5	11,760	3.05	2026-08-25	–
Bond 6	11,520	4.73	2025-04-02	–
Bond 7	11,120	3.74	2025-09-10	–
Bond 8	10,530	3.18	2026-04-05	–
Bond 9	10,210	3.86	2029-05-20	–
Bond 10	8,600	3.63	2026-07-19	–

5. Goodwill

The cost of the Group's goodwill stood at RMB6,019 million. As at the end of the reporting period, the allowance for impairment losses on goodwill reported RMB4,738 million, and the book value of goodwill registered RMB1,281 million, 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, 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 RMB4,996,991 million, an increase of RMB649,614 million or 14.94% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Unit: RMB million, %

Item	30 June 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Due to the central bank	167,722	3.36	224,838	5.17
Deposits from customers	3,672,102	73.49	3,017,888	69.42
Deposits from banks and other financial institutions	478,539	9.58	444,320	10.23
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	216,948	4.34	191,828	4.41
Financial liabilities at fair value through profit or loss	142	–	100	–
Derivative financial liabilities	15,725	0.31	13,893	0.32
Accrued staff costs	10,939	0.22	8,007	0.18
Taxes payable	7,751	0.16	9,322	0.21
Lease liabilities	10,893	0.22	11,069	0.25
Debt securities issued	359,887	7.20	371,904	8.56
Other liabilities	56,343	1.12	54,208	1.25
Total liabilities	**4,996,991**	**100.00**	**4,347,377**	**100.00**

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB3,672,102 million, representing an increase of RMB654,214 million or 21.68%, as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2020 Balance	30 June 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Corporate deposits	2,787,274	75.90	2,275,772	75.41
Demand deposits	900,884	24.53	783,859	25.97
Time deposits	1,886,390	51.37	1,491,913	49.44
Personal deposits	842,651	22.95	687,571	22.78
Demand deposits	296,334	8.07	221,158	7.33
Time deposits	546,317	14.88	466,413	15.45
Other deposits	4,022	0.11	21,682	0.72
Accrued interests	38,155	1.04	32,863	1.09
Total deposits from customers	**3,672,102**	**100.00**	**3,017,888**	**100.00**

iii. Equity of shareholders

As at the end of the reporting period, the Group's equity attributable to shareholders of the Bank amounted to RMB391,443 million, representing a net increase of RMB5,389 million as compared with the end of the previous year. The increase was mainly due to dividend distribution and profit realized in the current period.

Unit: RMB million

Item	30 June 2020	31 December 2019
Share capital	52,489	52,489
Other equity instruments	70,067	70,067
Capital reserve	53,533	53,533
Other comprehensive income	2,766	2,737
Surplus reserve	26,245	26,245
General risk reserve	59,718	59,417
Retained earnings	125,494	120,494
Total equity attributable to equity shareholders of the Bank	390,312	384,982
Non-controlling interests	1,131	1,072
Total equity	**391,443**	**386,054**

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 RMB1,536,333 million, an increase of RMB248,837 million as compared with the end of the previous year.

Unit: RMB million

Item	30 June 2020	31 December 2019
Loan and credit card commitments	339,013	323,743
Bank's acceptance bills	793,215	609,169
Letters of guarantee	125,961	128,746
Letters of credit	277,959	225,653
Guarantees	185	185
Total credit commitments	**1,536,333**	**1,287,496**

IV. CASH FLOW ANALYSIS

The Group's net cash inflows from operating activities amounted to RMB187,604 million. Specifically, cash inflows generated from operating activities reported RMB32,031 million, cash outflows arising from changes in operating assets stood at RMB488,989 million, and cash inflows arising from changes in operating liabilities totaled RMB644,562 million.

The Group's net cash outflows from investment activities amounted to RMB134,934 million, of which cash inflows generated from disposal and redemption of investments reported RMB345,868 million and cash outflows arising from acquisition of investments amounted to RMB507,352 million.

The Group's net cash outflows from financing activities were RMB30,008 million, of which cash outflows generated from payment of debt securities principal registered RMB10,931 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 continuously optimized its credit portfolio by industry, with a rising proportion of loans granted to manufacturing, wholesale and retail, construction, agriculture, forestry, animal husbandry and fishery.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Industry	**Balance**	**Percentage**	**Balance**	**Percentage**
Manufacturing	309,743	18.78	270,177	18.14
Water, environment and public utility management	283,903	17.21	261,465	17.55
Real estate	232,625	14.10	211,918	14.22
Leasing and commercial services	191,288	11.60	170,068	11.42
Wholesale and retail trade	126,274	7.65	113,140	7.59
Construction	108,135	6.55	94,793	6.36
Finance	94,401	5.72	76,907	5.16
Transportation, storage and postal service	91,113	5.52	87,226	5.85
Agriculture, forestry, animal husbandry and fishery	49,807	3.02	41,459	2.78
Production and supply of power, gas and water	44,725	2.71	45,948	3.08
Others[Note]	117,812	7.14	116,932	7.85
Subtotal of corporate loans	**1,649,826**	**100.00**	**1,490,033**	**100.00**
Personal loans	**1,190,196**	**–**	**1,157,508**	**–**
Discounted bills	**81,540**	**–**	**64,663**	**–**
Total loans and advances to customers	**2,921,562**	**–**	**2,712,204**	**–**

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, and the percentage of loans granted to Yangtze River Delta, Central China and Pearl River Delta slightly increased.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Region	Balance	Percentage	Balance	Percentage
Yangtze River Delta	628,662	21.52	556,102	20.49
Central	506,243	17.33	447,249	16.49
Pearl River Delta	375,485	12.85	341,541	12.59
Western	370,701	12.69	348,706	12.86
Bohai Rim	361,693	12.38	349,559	12.89
Northeastern	124,158	4.25	121,928	4.50
Head Office	452,872	15.50	450,945	16.63
Overseas	101,748	3.48	96,174	3.55
Total loans and advances to customers	**2,921,562**	**100.00**	**2,712,204**	**100.00**

iii. Types of loans by collateral and their proportions

The Group's guaranteed loans, mortgage loans and pledged loans combined accounted for 69.08% of the total.

Unit: RMB million, %

	30 June 2020		31 December 2019	
Type	Balance	Percentage	Balance	Percentage
Unsecured loans	903,317	30.92	852,885	31.45
Guaranteed loans	727,863	24.91	637,315	23.50
Mortgage loans	920,198	31.50	862,021	31.78
Pledged loans	370,184	12.67	359,983	13.27
Total loans and advances to customers	**2,921,562**	**100.00**	**2,712,204**	**100.00**

iv. Top ten loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as of 30 June 2020	Proportion in total loans	Proportion in net capital[1]
Borrower 1	Manufacturing	12,903	0.44	2.72
Borrower 2[2]	Leasing and commercial services	6,900	0.24	1.45
Borrower 3	Real estate	6,007	0.20	1.27
Borrower 4	Mining	5,500	0.19	1.16
Borrower 5	Manufacturing	5,285	0.18	1.11
Borrower 6	Manufacturing	4,309	0.15	0.91
Borrower 7	Manufacturing	3,490	0.12	0.74
Borrower 8	Water, environment and public utility management	3,375	0.11	0.71
Borrower 9	Transportation, storage and postal service	3,226	0.11	0.68
Borrower 10	Wholesale and retail trade	3,120	0.11	0.66
Total		**54,115**	**1.85**	**11.41**

Notes:

1. The proportion of the balance of loans in net capital is calculated according to the requirements of CBIRC.

2. Borrower 2 is a related party of the Bank and has conducted a related party transaction with the Bank.

Discussion and Analysis of Operations

v. Five-category loan classification

As at the end of the reporting period, the balance of NPLs reported RMB45,413 million, an increase of RMB3,201 million over the end of the previous year. The NPL ratio was 1.55%, down by 0.01 percentage point compared with the end of the previous year.

Unit: RMB million, %

Type	30 June 2020 Balance	30 June 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Normal	2,812,072	96.26	2,609,993	96.23
Special mention	64,077	2.19	59,999	2.21
Substandard	22,966	0.78	23,466	0.87
Doubtful	14,826	0.51	12,049	0.44
Loss	7,621	0.26	6,697	0.25
Total loans and advances to customers	**2,921,562**	**100.00**	**2,712,204**	**100.00**
Performing loans	2,876,149	98.45	2,669,992	98.44
Non-performing loans	45,413	1.55	42,212	1.56

vi. Loan migration ratio

Unit: %

Type	30 June 2020	31 December 2019	Change from 2019 to 2020	31 December 2018
Migration ratio of normal loans	1.60	2.57	-0.97 percentage point	1.94
Migration ratio of special mention loans	26.97	42.83	-15.86 percentage points	38.48
Migration ratio of substandard loans	52.35	86.04	-33.69 percentage points	68.71
Migration ratio of doubtful loans	29.81	66.74	-36.93 percentage points	32.80

vii. Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Type	30 June 2020 Balance	30 June 2020 Proportion in total principal of loans and advances	31 December 2019 Balance	31 December 2019 Proportion in total principal of loans and advances
Restructured loans and advances to customers	11,454	0.39	11,888	0.44
Of which: Restructured loans and advances to customers overdue more than 90 days	535	0.02	898	0.03

2. Overdue loans

Unit: RMB million, %

Type	30 June 2020 Balance	30 June 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Overdue for less than 3 months	28,911	44.68	27,637	44.91
Overdue for between 3 months and 1 year	21,494	33.21	22,493	36.55
Overdue for between 1 year and 3 years	12,524	19.35	9,307	15.12
Overdue for more than 3 years	1,788	2.76	2,107	3.42
Total principal of overdue loans	**64,717**	**100.00**	**61,544**	**100.00**

viii. NPLs by business type

Unit: RMB million, %

Type	30 June 2020 Balance	30 June 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Corporate loans	29,492	64.94	26,223	62.12
Personal loans	15,921	35.06	15,989	37.88
Discounted bills	–	–	–	–
Total NPLs	**45,413**	**100.00**	**42,212**	**100.00**

ix. Distribution of NPLs by region

During the reporting period, the Group's NPL ratio in Yangtze River Delta decreased slightly, whereas that in Northeastern China increased.

Unit: RMB million, %

Region	30 June 2020 Balance	30 June 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Northeastern	6,860	15.11	4,912	11.64
Yangtze River Delta	6,810	14.99	6,831	16.18
Bohai Rim	6,579	14.49	5,797	13.73
Western	5,253	11.57	4,951	11.73
Central	5,088	11.20	5,031	11.92
Pearl River Delta	4,946	10.89	4,155	9.84
Head Office	9,869	21.73	10,527	24.94
Overseas	8	0.02	8	0.02
Total NPLs	**45,413**	**100.00**	**42,212**	**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 sectors.

Unit: RMB million, %

Item	30 June 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Manufacturing	13,526	29.79	12,605	29.86
Wholesale and retail trade	4,763	10.49	5,141	12.18
Accommodation and catering	3,165	6.97	2,280	5.40
Leasing and commercial services	2,557	5.63	926	2.19
Mining	1,078	2.37	1,155	2.74
Transportation, storage and postal service	1,045	2.30	979	2.32
Construction	982	2.16	741	1.76
Real estate	957	2.11	951	2.25
Production and supply of power, gas and water	386	0.85	640	1.52
Information transmission, computer services and software	206	0.45	192	0.45
Others[Note]	827	1.82	613	1.45
Subtotal of corporate loans	**29,492**	**64.94**	**26,223**	**62.12**
Personal loans	**15,921**	**35.06**	**15,989**	**37.88**
Discounted bills	**–**	**–**	**–**	**–**
Total NPLs	**45,413**	**100.00**	**42,212**	**100.00**

Note: "Others" consist of health, social security and social welfare; scientific research, technical services and geological prospecting; finance; public administration and social organization; water, environment and public utility management; agriculture, forestry, animal husbandry and fishery; education; etc.

xi. Distribution of NPLs by collateral type

Unit: RMB million, %

Type	30 June 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Unsecured loans	13,404	29.52	13,339	31.60
Guaranteed loans	13,086	28.81	12,444	29.47
Mortgage loans	15,277	33.64	13,396	31.74
Pledged loans	3,646	8.03	3,033	7.19
Total NPLs	**45,413**	**100.00**	**42,212**	**100.00**

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	30 June 2020	31 December 2019
Repossessed assets	529	517
Of which: Land, buildings and structures	529	517
Less: Provision for impairment	(101)	(39)
Net value of repossessed assets	428	478

xiii. Provision for loan impairment losses and write-off

After conducting credit risk test on financial instruments on the balance sheet date, the Group made provision for the estimated credit loss for loans of varied risk levels according to their potential risk based on the expected credit loss model and such quantitative risk parameters as PD (probability of default) and LGD (loss given default) of customers. The provision for impairment losses was recognized through profit or loss for the current period.

Unit: RMB million

Item	As at 30 June 2020	As at 31 December 2019
Balance at the beginning of the period[1]	76,228	67,209
Charge for the period[2]	34,760	53,396
Release for the period	(5,571)	(5,575)
Recoveries due to written-off loans and advances for the period	1,529	2,428
Unwinding of discount[3]	(372)	(828)
Write-offs during the period	(19,640)	(26,576)
Disposal in the period	(2,643)	(13,826)
Change of exchange rate and others	2	–
Balance at the end of the period[1]	84,293	76,228

Notes:

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

2. It includes provision for impairment of loans made due to change of stage and change in cash flow resulting in loan 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 "Summary of Accounting Data and Financial Indicators" for more details.

VII. SEGMENT PERFORMANCE

i. Performance by regional segment

Unit: RMB million

Region	January – June 2020		January – June 2019	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	13,664	5,051	11,957	5,787
Central	12,401	3,748	10,596	2,916
Bohai Rim	11,176	4,265	9,866	(751)
Pearl River Delta	9,515	1,943	8,578	1,902
Western	8,527	1,679	7,105	942
Northeastern	3,200	(1,206)	2,937	425
Head Office	12,293	5,625	14,117	12,629
Overseas	1,381	933	1,068	632
Total	**72,157**	**22,038**	**66,224**	**24,482**

Discussion and Analysis of Operations

ii. Performance by business segment

Unit: RMB million

Type	January – June 2020 Operating income	January – June 2020 Profit before tax	January – June 2019 Operating income	January – June 2019 Profit before tax
Corporate banking business	30,488	9,760	26,843	8,024
Retail banking business	29,283	1,123	27,039	5,336
Financial market business	12,354	11,181	12,247	11,066
Other business	32	(26)	95	56
Total	**72,157**	**22,038**	**66,224**	**24,482**

Please refer to "Notes to the Consolidated Financial Statements" for details of performance by business segment.

VIII. OTHERS

i. Changes in major financial indicators and reasons

Unit: RMB million, %

Item	30 June 2020	31 December 2019	Increase/ (Decrease)	Main reasons for change
Deposits with banks and other financial institutions	43,658	31,358	39.22	Increase in deposits with domestic deposit-taking financial institutions
Financial assets held under resale agreements	192,506	6,835	2,716.47	Increase in bonds held under resale agreements
Financial assets at fair value through profit or loss	318,028	211,406	50.43	Increase in financial assets at fair value through profit or loss
Other assets	56,982	35,979	58.38	Increase in the amount to be cleared
Item	**January – June 2020**	**January – June 2019**	**Increase/ (Decrease)**	**Main reasons for change**
Net trading gains	71	778	-90.87	Decrease in net trading gains
Credit impairment losses	(30,526)	(23,331)	30.84	Increase in provision

ii. Overdue and outstanding debts

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

iii. Provisioning for interest receivables and allowance for related bad debts

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance-sheet interest receivable	32,014	123,743	121,659	34,098

Note: It includes accrued interest and interest receivable that has not been collected.

2. Provisioning of allowance for bad debts of interest receivable

Unit: RMB million

Item	30 June 2020	31 December 2019	Increase
Balance of allowance for bad debts of interest receivable	3	10	(7)

iv. Other receivables and provisioning of allowance for bad debts related

1. Change in other receivables

Unit: RMB million

Item	30 June 2020	31 December 2019	Increase
Other receivables	46,004	26,187	19,817

2. Provisioning of allowance for bad debts of other receivables

Unit: RMB million

Item	30 June 2020	31 December 2019	Increase
Balance of allowance for bad debts of other receivables	684	573	111

IX. PERFORMANCE OF BUSINESS SEGMENTS

i. Corporate banking

To fight against the COVID-19 pandemic, the Bank quickly unveiled a series of supportive policies. It created the list of enterprises that are under prioritized support, allocated special credit to them, delegated the approval and pricing authorizations and opened green channels to powerfully support this battle. Meanwhile, the Bank helped manufacturers, private enterprises and enterprises eligible for the inclusive financial policy to resume work and production. Loans to manufacturing and private enterprises grew fast, chronological target of "Two No-less-thans and Two Controls" for inclusive finance was fulfilled, and the interest rates of new corporate loans dipped significantly over the year beginning. "Sunshine Trade Finance Cloud" and "Sunshine Inclusive Finance Cloud" products were leveraged to render whole-process supply chain financial services to core enterprises and their customers on the upstream and downstream. By vigorously pushing forward the "Customer Multiplication" plan, the Bank continued to consolidate the customer base and increased the number of corporate customers by 9.55% over the end of last year to 266,200. During the reporting period, the Bank's corporate banking registered an operating income of RMB30,488 million, an increase of RMB3,645 million or 13.58% compared on a yearly basis, accounting for 42.25% of the Bank's total operating income.

1. Corporate deposits and loans

The Bank went all out to support national strategies and economic development and granted credit to key fields. It actively carried out the policies on reducing fees and making interest concessions to customers, as well as postponing principal and interest repayments on loans. The growth of loans to manufacturing and private enterprises outpaced the average of the whole bank's corporate loans, and the weighted average interest rate of loans was on a decline from the year beginning. Capitalizing on the strengths of online products, the Bank strengthened online acquisition of customers in batch, made greater efforts to turn customers' settlement capital into deposits and spurred the growth of core deposits. It continued to improve the deposit structure and actively reduced structured deposits. Never crossing the risk line, the Bank stepped up risk prevention and saw a steady improvement of asset quality while ensuring stability. As at the end of the reporting period, the balance of corporate deposits (including the corporate business-related portion in other deposits) amounted to RMB2,790,930 million, representing an increase of RMB512,986 million or 22.52% over the end of the previous year. Among the above, core corporate Renminbi deposits increased by 25.50%; the balance of corporate loans was RMB1,731,366 million, an increase of RMB176,670 million or 11.36% over the end of the previous year.

Discussion and Analysis of Operations

2. Inclusive finance

While actively implementing the decisions and plans on beating coronavirus, the Bank increased credit and introduced innovative products and services to resolve the difficulty and cost of loans to small and micro enterprises, earnestly carried out relevant policies such as postponing principal and interest repayment on loans, leading to a multi-pronged approach to maximize the financial support for the work and production resumption of small and micro enterprises. The Bank continuously stepped up the support for poverty alleviation in rural areas, ensured the supply of financial resources for spring ploughing and preparation and improved the service quality. In an innovation-driven manner, the Bank successively premiered "Sunshine E-catering Loan" and other products, made iterative update to "Sunshine Inclusive Finance Cloud", and improved "Sunshine E-loan for Micro and Small Enterprises" and "Sunshine E-mortgage Loan". The Bank deepened the strategic cooperation with the Receivable Financing Service Platform (RFSP) of the Credit Reference Center (CRC) of PBOC and enhanced the channel building of National Financing Guarantee Fund and National Agricultural Credit Guarantee Alliance, ensuring steady growth in all business indicators. As at the end of the reporting period, the Bank achieved compliance with regulatory indicators of "Two No-less-thans and Two Controls". Specifically, the balance of inclusive finance loans to small and micro businesses stood at RMB178,830 million, up RMB23,434 million or 15.08% from the end of the previous year, which was higher than the average growth of bank-wide loans. The number of customers was 384,858, an increase of 12,315 from the end of the previous year. Weighted average interest rate of new loans fell by 87 bps on a yearly basis to 4.99%. The NPL ratio was 0.92%.

3. Investment banking

In line with the philosophy of combining "commercial banking, investment banking and wealth management", the Bank placed emphasis upon diversified needs of customers, integrated resources from the perspective of broader investment banking based on the market-oriented business to increase the support for the real economy. It made progress in the development of investment banking systems and launched modules of personal consumption loan and residential mortgage loan under the credit assets securitization system. During the reporting period, the Bank led the underwriting of RMB289,693 million of bonds, the sixth largest in the market, representing a year-on-year increase of 54.40%, including underwriting of RMB21,680 million of anti-pandemic bonds and issuance of RMB1,876 million of asset-backed notes (ABN) for enterprises.

4. Transaction banking

During the reporting period, the Bank set up Transaction Banking Department, which performs the management, service and marketing functions of transactions-related business and products in corporate banking. In terms of transaction banking, following the scenario-based, multi-channel and platform-backed development trends, the Bank integrated products, customers and systems over transaction processes, built a business system consisting of international settlement, trade finance, supply chain finance and cash management to help customers with wealth management in settlement, financing, guarantee, payment and cash management businesses. In accordance with the government's strategic plan for development of private enterprises and targeted customers for inclusive finance, the Bank vigorously developed supply chain finance, actively served the real economy by launching the "Sunshine Wages" financial service brand securing wages of migrant workers, strengthened the development of fintech products in building the "Sunshine Transaction E-blockchain", and promoted the implementation of key projects relating to the construction of Free Trade Zone (Port) in pursuance of the national policy. As at the end of the reporting period, the overall balance of the on- and off-balance-sheet trade finance increased by 9.19% over the end of last year.

ii. Retail banking

Focusing on the digital transformation of retail banking and following the guideline of "connecting to scenarios externally, developing platforms internally, adopting data-driven approaches and pursuing integrated operations", the Bank innovated the model of retail customer acquisition and operation, which increased the total number and improved the quality of retail customers. It also intensified efforts in the structural adjustment on the liability side, resulting in the stable increase in retail deposits and continuous optimization of the deposit structure. To deepen the transformation of wealth management, the Bank reinforced the formation of the individual customer ecosphere of Wealth E-SBU and saw a bigger scale and higher economic benefits of wealth management. It advanced the transformation of retail loan business and upgraded the business structure to support the development of inclusive finance, and continuously improved the asset quality. During the reporting period, operating income from retail banking business stood at RMB29,283 million, up by RMB2,244 million or 8.30% from the same period of last year, accounting for 40.58% of the total operating income of the Bank. Specifically, net interest income from retail banking was RMB20,333 million, up by 10.82% from the same period of last year, accounting for 37.19% of the total net interest income of the Bank. Net non-interest income from retail banking reached RMB8,950 million, up by 2.98% from the same period of previous year, accounting for 51.17% of the total net non-interest income of the Bank.

1. Retail customers and AUM

The Bank worked hard to expand the base of new customers and tap the value of existing customers towards the core objective of "a bigger, better-structured customer base". Coordinated online and offline operation was strengthened through customer life-cycle management, backed by data mining models. Precision marketing across different tiers and customer groups brought into existence a market-oriented and customer-centered operation system, which was tiered, centralized and professionalized. As at the end of the reporting period, the Bank had 114,334,300 retail customers (including holders of credit and debit cards), an increase of 13,455,000 or 13.34% from the end of the previous year. Medium and high-end customers with at least RMB500,000 of daily average assets per month grew by 14.75% from the end of the previous year, indicating further improvement in customer structure. There were 94,864,400 users of mobile banking, "Sunshine Life" and "Cloud Fee Payment" Apps in total, up by 17.40% from the end of the previous year. The number of monthly active users (MAU) was 23,375,400, up by 8.45% from the end of the previous year. The balance of retail AUM totaled RMB1,884,214 million, up by 10.46% from the end of the previous year.

2. Retail deposit business

Adhering to the operating philosophy of "developing via deposit business", the Bank deepened customer-oriented integrated operations and kept the scale of personal deposits expanding on a steady footing. It strengthened customer service by improving "Payroll Manager", a payroll-based integrated financial service platform. The Bank actively carried forward such key work as payroll payment agency in batch, expansion of channels and scenarios, and overseas finance projects, and rolled out targeted marketing to increase customers' comprehensive contribution. As at the end of the reporting period, the balance of retail deposits (including the portion of retail deposits in other deposits) of the Bank amounted to RMB843,017 million, representing an increase of RMB135,936 million or 19.22% over the end of the previous year.

3. Wealth management

The Bank sped up the transformation of wealth management, effectively enhanced the capabilities of marketing, asset allocation, scenario innovation, investment advising and risk control through strengthening the tiered customer group strategy, bettering the management system and reinforcing team building, and steadily increased the efficiency of wealth management. It actively promoted the development of the individual customer ecosphere of Wealth E-SBU, stepped up customer migration, cross selling, product innovation and integrated services based on China Everbright Group's advantages in industry-finance integration, financial sector integration and full financial licenses, and provided individuals with a full package of financial solutions.

The Bank actively implemented the new rules on asset management, furthered the transformation of personal wealth management and developed a "Colorful Sunshine" series wealth management product system. As at the end of the reporting period, the size of transformative wealth management products grew by 14.93% over the end of the previous year, rising to 37.59% in total proportion. The "Innovative Winner Initiative" and the "Output Leap Initiative" were carried out to improve wealth managers' professional service capabilities, with the per-outlet and per-capita output rising significantly. During the reporting period, net fee income from personal wealth management stood at RMB3,825 million, up by 62.37% year on year. Specifically, income from agency wealth management surged by 417.03% year on year, income from agency trust grew by 60.75% year on year, and income from agency funds increased by 32.52%.

4. Private banking

During the reporting period, with an aim to promote tiered customer group marketing and build a "first-class wealth management bank", the Bank set up Private Banking Department to focus on wealth management and customer group operation, strengthen team building, promote technology driving, and give full play to the advantages of synergy and ecosphere within China Everbright Group. Meanwhile, it intensified efforts to improve six core capabilities, namely customer group marketing, product management, team building, compliance and risk control, fintech and comprehensive services. The private banking gained strong advantages in cutting-edge products through tapping the value of high net worth customers, cultivating three customer acquisition models, namely linked improvement, circle marketing and E-SBU collaborative migration. Themed with elderly care, education and travel, the Bank worked hard to create distinctive hit products and sharpen the competitive edges. It also strengthened its vertical management, optimized private banking organization system consisting of Head Office, branches and sub-branches, built up a team comprising wealth managers, investment consultants, product managers, customer group marketing managers, compliance and risk managers, which established a systematic, professional, and standardized working team model. With the progress of Wealth AI+ project and the new-generation system for commissioned sales, the online functions of private banking were optimized and the level of intelligence improved. The Bank promoted the improvement of "private investment banking+" and "health & elderly care" to strengthen comprehensive services and highlight its brand features. As at the end of the reporting period, the Bank owned 36,659 private banking customers, an increase of 4,452 or 13.82% over the end of last year. The increase of private banking customers in the first half of 2020 was more than that throughout 2019. The AUM amounted to RMB426,823 million, representing an increase of RMB53,134 million or 14.22% over the end of the previous year. The increase of AUM in the first half of 2020 equaled to the total volume throughout 2019.

5. Retail loans

The Bank actively pursued transformation and upgrading of personal loans, and lowered the access barrier and financing costs of small and micro businesses through innovative risk mitigation and enhanced data-based risk control in a bid to support the development of inclusive finance. It strictly implemented the real estate macro-regulation policy of the government to support the reasonable demands of housing ownership both for self-occupation and improvement. It met the reasonable needs of customers for consumption financing through deepened cooperation with leading internet platforms. In addition, the Bank sped up the online, centralized, smart, standardized and agile transformation of personal loans, increased the efficiency of online marketing and risk control, and developed hit personal loan products. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB743,504 million, representing an increase of 4.19% from the end of the previous year.

6. Credit card business

The Bank unveiled a series of repayment postponement policies to serve customers affected by the pandemic, with the "Angle Program" repaying medical workers and the "Heartwarming Project" supporting employment and resumption of production. The active participation in the wealth E-SBU resulted in the migration of nearly 400,000 retail customers. The Tourism E-SBU was further developed, sharing 348,700 new customers with China CYTS Tours Holding and generating RMB128 million income in cross-selling. The health E-SBU kicked off, and the "Sunshine Chinese Medicine · Qihuang" credit card was launched. The Bank researched and developed "Sunshine Family" product series, mainly launched the scenario-based marketing platform "Sunshine Partners", enhancing MGM customer acquisition ability, developed the "Sunshine Ecosphere" strengthening services for consumption scenarios, and proposed the "Sunshine Assembly" to support the resumption of work and production. In the meantime, the credit card App of CEB was released with a market-leading 10,538,000 monthly active users. It emphasized the idea of improving the efficiency and effectiveness of operation management in a technology-driven and digital way, developed the enterprise-level distributed PaaS platform, started digital transformation and launched robotic process automation (RPA) to support the automation of business processes. The Bank built the "Sunshine Intelligent Risk Control" system which made risk management and control more intelligent on the basis of data integration and AI algorithm application. During the reporting period, about 4.0077 million new credit cards were issued by the Bank, with a transaction volume of RMB1,323,515 million, up by 2.62% compared with the first half of 2019. The overdraft balance at the end of the reporting period (excluding the payment adjustment to transitional account) amounted to RMB445,557 million, up by 0.16% over the end of last year. The Bank generated an income of RMB23,350 million during the reporting period, up by 0.71% year on year.

7. Digital banking

The Bank capitalized on the agile advantage of digital banking, rolled out non-contact financial services to help with the fight against COVID-19, and went digital at a faster speed. As at the end of the reporting period, 98.60% of counter transactions were handled through electronic channels, 0.26 percentage point higher than the same period of last year. The proportion of intelligent services via remote banking was enlarged by about 22 percentage points compared with the end of the previous year. Mobile banking (V7.0) was launched, and the "Wealth +" brand was upgraded. The number of monthly active users of mobile banking reached 10,297,200, an increase of 45.52% year on year. The stably increasing customers of "Cloud Payment" reported total transactions at RMB5.30 trillion. What's more, the Bank set up a comprehensive asset management platform on the basis of "Reassuring Loan", the balance of which stood at RMB77,273 million and more than RMB210 billion of which was extended in aggregate during the first half of 2020.

8. Cloud Fee Payment

The Bank paid great efforts to expand service scenarios of life, enterprise and government, and in the meantime, pressed ahead with more project operations, exporting service and obtaining direct customers, maintaining a healthy and rapid growth with Cloud Fee Payment business. This business has developed eight "Life Channels", including wealth management, insurance, securities, healthcare, tourism, going-abroad, housekeeping and coupons to accelerate the transformation from Cloud Fee Payment to Cloud Life banking service. Acting as an online convenient platform that has a large number of projects and channels, Cloud Fee Payment has provided great experience to all consumers and made contributions to the fight against the coronavirus by promoting social distancing. As at the end of the reporting period, the platform offered 8,654 fee payment projects in total, including 1,451 newly-added ones during the first half of this year, showing an increase of 20.14% compared with the end of last year. The platform was exported to 495 agencies, including 80 newly-added ones over the first half of this year, up by 40.35% from the same period of previous year. The platform served 557 million payers for the past three years, with 285 million active users, up by 20.01% on a yearly basis. It has processed 821 million transactions, up by 14.63% from the same period of last year. The total number of direct users of Cloud Fee Payment was 19,823,400, marking an increase of 71.59% over the end of last year. Besides, the number of monthly active users reached 2,540,200, rising by 253.37% year on year. Income from fee-based business stood at RMB274 million, up by 47.96% year on year.

Discussion and Analysis of Operations

iii. Financial market business

Capitalizing on the low consumption of capital, the Bank adhered to value creation and served the real economy in financial market business, and continued to enhance the market-oriented operations and investment and trading capabilities. It played a due role in the financial sector's joint fight against coronavirus, actively contacted institutions in Hubei Province and nearby pharmaceutical companies, health institutions and public health infrastructure constructors, and issued multiple anti-pandemic wealth management products. The custody segment overcame the pandemic disruptions through coordination and overall planning, and ensured stable business operation. The Bank strengthened brand building and fueled business growth with hit products. During the reporting period, the Bank's financial market business registered an operating income of RMB12,354 million, an increase of RMB107 million or 0.87% compared with the same period of the previous year, accounting for 17.12% of the Bank's total operating income.

1. Treasury business

In compliance with the regulatory requirements, the Bank continued to optimize its balance sheet structure, improve capital operation efficiency and ensure liquidity safety. It increased the investment in bonds, improved bond investment structure by buying more central government bonds, local government bonds, policy financial bonds and high-grade credit bonds, played an active role in anti-pandemic bond investment and underwriting, and extended strong support to the real economy. Moreover, the Bank stepped up efforts in launching new franchise business products, and increased the proportion of trading and franchise business in order to realize the transformation to asset efficiency business. As at the end of the reporting period, the balance of bonds in proprietary account amounted to RMB857,939 million, accounting for 15.92% of the Bank's total assets, 48.56% of which were central and local government bonds. The Bank still ranked at the forefront in treasury business of joint-stock commercial banks.

2. Interbank business

The Bank implemented regulatory requirements with due care, returned to the origin of business, maintained an appropriate scale of interbank business, strengthened the management of specialized interbank business to ensure compliance and prudence in operation. It conducted market analysis actively to ride on market trends, improved asset allocation and reduced liability costs. It continued to pay attention to liquidity safety and fulfilled the function of bank-wide liquidity management. It kept business risks under strict control, stepped up early warning and monitoring of credit risks, actively launched risk investigation and maintained the stability of asset quality. What's more, the Bank continued to strengthen the customer base and expanded business cooperation. As at the end of the reporting period, the balance of interbank deposits stood at RMB475,339 million.

3. Asset management business

Following the regulatory guidance and centering on the "Colorful Sunshine" product series, the Bank expanded the scope of products and accelerated the transition to net-asset-value (NAV) products. It contributed to the anti-pandemic battle with financial power and issued a number of anti-pandemic products to help enterprises resume work and production. To achieve a breakthrough through "new round of infrastructure construction", the Bank captured the opportunities of a new round of technological and industrial revolutions and offered five new investment product brands including "Zhuque" and others to bolster the development of the real economy. Meanwhile, the Bank put in place a preliminary comprehensive risk management system featuring uniform management of credit risks, centralized management of market risks, hierarchical management of operational risk and independent management of liquidity risk to stimulate the sound development of wealth management business. As at the end of the reporting period, the Bank's non-principal-guaranteed wealth management products had a balance of RMB795,425 million. In the first half of 2020, the Bank accumulatively issued RMB1.99 trillion of non-principal-guaranteed wealth management products. All products under "Sunshine Wealth Management" brand were honored at maturity.

4. Asset custody services

Following the overall requirements of "market expansion, service improvement and risk prevention", the Bank increased the efforts in marketing asset custody business, which yielded good results. The income from securities investment fund custody, bank wealth management custody and enterprise annuity custody achieved remarkable increase. The Bank upgraded the new-generation custody system, built a sound custody product and business system, and improved its market service capabilities. It refined the internal control and promoted the sustained growth of business. As at the end of the reporting period, the Bank's income after tax from custody business amounted to RMB884 million, and RMB6,171,118 million of assets were under the Bank's custody.

X. BUSINESS INNOVATION

During the reporting period, the Bank attached great importance to financial innovation, adhered to the concept of "innovation-driven development", and continued to improve the innovation management system and mechanism. It promoted the deep integration of finance and technology with an open attitude, accelerated the transformation and application of innovation results, and enhanced core competitiveness. It also stepped up top-level design, improved the fintech innovation mechanism in an all-round way from institutional system, system platform, resource investment to cultural fostering, so as to stimulate innovation momentum. The Bank established a special funds mechanism for fintech innovation with an up-front investment of RMB500 million to support the incubation of annual innovation projects, and this was characterized by public participation, agile operation, comprehensive coverage, market incubation, etc. Considering market activity and innovation capabilities, the Bank flexibly delegated authorizations to branches, and fully mobilized the innovation enthusiasm of all employees. As a move to integrate the innovation management functions of the whole bank, the fintech sector was responsible for planning and promoting bank-wide innovation. Besides, the Bank enhanced linkage with the innovation mechanism of China Everbright Group, encouraged employees to carry out "entrepreneurship & innovation", and promoted the incubation and materialization of outstanding ideas.

During the reporting period, the Bank launched key innovation projects on blockchain. Responding to the call for the digitalization of industrial chain, Ant Duo-Chain (Guang Xin Tong) was launched to put forth efficient digital solutions through the blockchain platform to address the financing difficulties of micro and small enterprises, which won the Award of Honor, the best prize at the "2020 China Fintech Innovation Competition" organized by the China Financial Certification Authority (CFCA). The Bank also developed remote video services and fostered technological and talent strengths. The video function under mobile banking served customers for 270,000 person-times accumulatively, with a daily average at over 1,000 person-times and reporting customer satisfaction ratio of 99.49%.

XI. INFORMATION TECHNOLOGY

The Bank continued building the "123+N" digital banking development system with "one smart brain, two technological platforms, three service capabilities and N digital hit products" and leveraged on the capability of business transformation, technological infrastructure and governance optimization ("BTG") to fully enable the innovative development of banking business. "One smart brain" reshaped the Bank's intelligent service, upgraded the intelligent platform, and realized the cross application of multi-modular bio-metrics identification, seeing a 68.79% increase in the number of scenarios covered over the end of last year. "Two technological platforms", in accelerating innovative applications, started the "Avayun" project, implemented the "Polaris" framework transformation plan, released the self-developed (POIN) micro-service version, and promoted the container cloud platform, which fully supported the Bank's distributed architecture transformation, with 87.51% of the whole bank's application systems launched onto the cloud, and the total amount of data on the big data platforms increasing by 67.22% over the end of the previous year. "Three service capabilities" ushered the Bank into a new era of wealth management V3.0 in a mobilized, open-ended and ecosphere-centered way. "N digital hit products" saw the continuous offerings of high-quality innovative products under the support of fintech, with numerous products including Cloud Fee Payment, Cloud Payment, Reassuring Loan, Bid Express, Sunshine Transaction E-blockchain, Ant Duo-Chain (Guang Xin Tong), Cloud Card Issuing and Enjoy Sunshine • Health & Elderly Care Ecosphere receiving good feedbacks from the market.

The Bank accelerated the digitalization of all kinds of businesses and services, launched a new generation of customer service, customer manager workstations and digital business cards, and made possible one-stop online exclusive wealth services. It rolled out payroll agency business online, offered cloud card issuing and launched "Sunshine E-catering Loan" to effectively satisfy the online financial needs of individuals and enterprises. In addition, the Bank developed remote communication tools, cloud desktop, intelligent fee control platform and centralized procurement platform, etc., to comprehensively improve internal operating efficiency.

XII. INVESTMENT ANALYSIS

i. Long-term Equity Investments

As at the end of the reporting period, the balance of the Bank's external equity investments amounted to RMB12,383 million, equal to the total amount at the end of the previous year.

ii. Material Equity Investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principal 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	468,000	531,000	90	58,390	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Everbright Wealth Management Co., Ltd.	Wealth management	500,000	–	100	2,122	Nil
CEB International Investment Corporation Limited	Investment banking	HKD2.6 billion	–	100	HKD31.97 million	Nil
China Everbright Bank (Europe) S.A.	Full- licensed banking business	EUR20 million	2,000	100	EUR180,000	Nil
Shaoshan Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	217	Sany Group Co., Ltd., Guangzhou Baoli Hetai Financial Holding Co., Ltd., Changsha Tongcheng Holdings Co., Ltd., Shaoshan Urban Construction Investment Co., Ltd.
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Commercial banking	7,000	7,000	70	(214)	Jiangsu East Goldfox Fashion Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packaging Co., Ltd.
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	(87)	Ruijin Cultural Tourism Development and Investment Co., Ltd., Ruijin Hongdu Aquatic Product Food Co., Ltd., Ruijin Lvyexuan Forestry Co., Ltd., Ruijin Tiancheng Agricultural Products Co., Ltd.
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	933,800	Other commercial banks, etc.
National Financing Guarantee Fund Co., Ltd.	Re- guarantee	75,000	–	1.51	3,363	21 shareholders including Ministry of Finance, China Development Bank, Industrial and Commercial Bank of China, China Merchants Bank, China Life, etc.

Notes:

1. All the above-mentioned material equity investments were made with unquoted equity.

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

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

iii. During the reporting period, the Bank had no material non-equity investment and conducted bond investment in the ordinary course of its businesses. Please refer to the afore-mentioned 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 Consolidated Financial Statements" for details.

XIII. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST OF THE BANK.

XIV. MAJOR COMPANIES IN WHICH THE BANK HELD EQUITY

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company engages in financial leasing business. It was registered in Wuhan City, Hubei Province with a registered capital of RMB5.9 billion. During the reporting period, the company mainly focused its financial leasing business on fields related to national economy and people's well-being, such as public utilities, infrastructure, urbanization construction as well as national strategic emerging industries such as new materials, new energy and high-end manufacturing. By now, it has formed certain brand advantages in aviation and vehicle equipment, and is expanding business in wind power, forming a nationwide business network. As at the end of the reporting period, its total assets, net assets and net profit were RMB105,753 million, RMB9,783 million and RMB584 million, respectively.

ii. Everbright Wealth Management Co., Ltd.

Founded in September 2019, the company specializes in asset management related businesses such as the issuance of publicly-offered wealth management products, the issuance of private-equity wealth management products, wealth management advisory and consultation. It was registered in Qingdao City, Shandong Province with a registered capital of RMB5 billion. During the reporting period, through diversified products and professional abilities of assets allocation, the company steadily pushed forward the transformation to net-asset-value wealth management products, and provided comprehensive asset appreciation services for investors. As at the end of the reporting period, its total assets, net assets and net profit were RMB5,198 million, RMB5,025 million and RMB21.22 million, respectively.

iii. CEB International Investment Corporation Limited

Registered with a capital of HKD2.6 billion in Hong Kong in June 2015, the company has obtained the licenses for securities trading, securities consultation, financial consultation and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsorship and underwriting, public offering and placement of new shares on secondary markets by listed companies, and enterprise refinancing. As at the end of the reporting period, its total assets, net assets and net profit were HKD12,098 million, HKD2,531 million and HKD31.97 million, respectively.

iv. 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 mainly engages in deposit taking, loan granting, bill and bond issuance and any other businesses that can be conducted by credit institutions according to local laws in Luxembourg. During the reporting period, it focused its efforts on developing cross-border business. As at the end of the reporting period, its total assets, net assets and net profit were EUR34.78 million, EUR14.83 million and EUR180,000, respectively.

v. Shaoshan Everbright Rural Bank Co., Ltd.

Founded in September 2009, the rural bank engages in commercial banking services including deposit and lending. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it continued to serve rural residents, agriculture and rural areas as well as the local area. It helped boost the growth of small and micro businesses 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 were RMB817 million, RMB220 million and RMB2.17 million, respectively.

vi. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

Incorporated in February 2013, the rural bank engages in commercial banking services including deposit and lending. It was registered in Huai'an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve rural residents, agriculture and rural areas, developed small and micro businesses, and achieved steady growth. As at the end of the reporting period, its total assets and net assets were RMB1,201 million and RMB134 million, respectively. Due to the impact of the pandemic, with the deposit and loan interest margin narrowed, the provision increased, the rural bank reported a negative net profit of RMB2.14 million.

vii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

Incorporated in November 2018, the rural bank engages in commercial banking services including deposit and lending. It was registered in Ruijin City, Jiangxi Province with a registered capital of RMB150 million. During the reporting period, it proactively served rural residents, agriculture and rural areas, and developed the medium, small and micro businesses. As at the end of the reporting period, its total assets and net assets were RMB760 million and RMB154 million, respectively. Due to the impact of the pandemic, with the deposit and loan interest margin narrowed, the provision increased, the rural bank reported a negative net profit of RMB870,000.

XV. STRUCTURED ENTITIES CONTROLLED BY THE BANK

The structured entities controlled by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to the Consolidated Financial Statements" for details.

XVI. RISK MANAGEMENT

i. Credit risk management

The Bank continued to strengthen the coordinated management of credit risk as per the principle of unified management of policy, approval, monitoring and special assets resolution. It improved the unified credit management mechanism and carried out unified credit management for various credit and investment businesses. Meanwhile, the Bank intensified the corporate governance of its subsidiaries and supervised and guided their risk management. It also actively applied big data, artificial intelligence, blockchain and other fintech means to transform traditional risk control techniques and measures to improve the digital and intelligent level of risk management.

The Bank strengthened credit support for areas of pandemic prevention and control, and provided differentiated preferential financial services for the areas concerning the society and people's livelihood affected by the pandemic. It intensified efforts in performing social responsibilities, actively supported domestic demand expansion, work and production resumption and employment security, and provided precise financial services for pandemic prevention and control, resumption of work and production, and real economy development. The Bank improved the credit structure, reasonably allocated credit resources and stepped up efforts to serve the real economy. It actively supported major national strategies by expanding business in strategic emerging industries, advanced manufacturing industries and modern service industries, and granted more medium and long-term loans to manufacturing industries. Meanwhile, the Bank supported private enterprises, small and micro businesses, rural residents, agriculture and rural areas, and actively developed inclusive finance.

Discussion and Analysis of Operations

The Bank persisted to classify assets in an accurate manner so as to reveal dynamic risk conditions objectively. It pursued a prudent and sound provision policy, performing impairment test and provisioning strictly according to the new accounting standards for financial instruments. Besides, it also improved the full-process management mechanism of asset quality, intensified the disposal of existing non-performing loans, and broadened disposal channels.

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

ii. Liquidity risk management

The Bank held a prudent and sound attitude towards liquidity risk management and stuck to its safety bottom line for security, in a bid to keep liquidity at a sound and adequate level. Facing the impact of the pandemic, the Bank carried out forward-looking and all-round stress tests in different scenarios and strengthened cash flow forecast and analysis. It also stepped up liquidity risk management at the Group level, improved relevant rules and regulations, and re-examined policies related to liquidity risk. The Bank closely tracked changes in the market, and implemented proactive liquidity management plans, with a view to ensure safe and stable liquidity. The Bank explored diversified liability channels, and reserved high-quality liquidity assets, thereby enhancing its risk resistance capacity.

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

iii. Market risk management

The Bank continued to improve its market risk management system, regularly adjusted market risk limit, and put all relevant businesses and products that are associated with market risks under market risk limit control. During the pandemic, the Bank closely followed the fluctuations of both domestic and foreign markets, endeavored to predict and analyze interest rate risk and exchange rate risk, and implemented various risk prevention measures. As a result, the Bank ensured the smooth operation of related businesses, prevented extreme market risks that may be caused by emergencies, and kept all market risk monitoring indicators within the scope of risk appetite. Also, the Bank carried out regular market risk stress tests, and continuously improved stress test procedures and result application mechanism.

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

iv. Large exposures management

The Bank strictly implemented regulatory requirements, formulated management rules for large exposures, and established an organizational structure and management system for large exposures management. Besides, it promoted the development of relevant information system, measured and dynamically monitored changes in large exposures, and thus effectively controlled customer concentration risk. As at the end of the reporting period, all limit indicators for the Bank's large exposures were controlled within the scope permitted by regulators.

v. Country risk management

Country risk management constitutes an important part of the Bank's comprehensive risk management system. Through dynamically monitoring changes in country risk, the Bank imposed strict management on country and region access, set and monitored the country risk limit, made allowances for country risk impairment for country risk-involving businesses, conducted risk stress tests, and developed systems to improve the digitalization level of country risk management. It also regularly reported the Bank's country risk management to the senior management and regulators. As at the end of the reporting period, the Bank's assets involved in country exposures were small in amount and within the limit, and would not have a material impact on business operation.

vi. Operational risk management

The Bank revised its operational risk management policies and measures to further clarify its operational risk assessment requirements for new businesses. By summarizing and analyzing regulatory penalties, external compensation and other losses, the Bank analyzed major problems, prompted compliance key points, made lists to identify problems, corrective actions and responsibilities, and supervised the implementation of special corrective actions. It also regularly monitored key risk indicators to improve its ability to pre-warn against operational risks, and kept reinforcing employees' compliance awareness by organizing contests to collect cautionary cases and publicizing more circulars of typical, recurring and common problems.

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

vii. Compliance risk management

The Bank kept strengthening its compliance risk management by continuously reinforcing the foundation work for internal control and compliance management and organizing revision and review of rules and regulations in a centralized manner to improve rules and regulations. It closely kept track of the changes in external laws and regulations, and upgraded its external regulatory library correspondingly. Meanwhile, the Bank improved management by revising and improving its rules for operation and management authorizations. To magnify the supervision and inspection effect, the Bank persisted in unannounced inspections and investigations of unusual fund transactions of employees to maintain deterrence. In addition, the Bank enhanced its supervision and handling of material, difficult and sensitive litigation cases, and strengthened closed-loop control of the whole process.

viii. Reputational risk management

The Bank attached great importance to its reputational risk management and included reputational risks in its comprehensive risk management. It continuously improved rules and regulations, and enhanced its ability to identify and judge risks through internal training, emergency drills and risk pre-warnings. The Bank also strengthened the monitoring and investigation of reputational risk events, and adhered to the 24/7 public opinion monitoring and reporting mechanism, so as to timely detect hidden dangers which might lead to reputational risks and properly prevent and mitigate risks.

During the reporting period, the Bank did not incur any material reputational risk event that could seriously endanger the reputation of the Bank.

ix. Anti-money laundering (AML) management

The Bank further improved its money-laundering risk management mechanism and policies, carried out money-laundering risk assessment and promoted its special examination of AML data. It also strengthened AML training, brought high-risk customers under intensified management, and made efforts to prevent money laundering risks by carrying out money laundering risk investigations on activities such as leasing and selling bank accounts and illegal wildlife trade. Besides, it strictly fulfilled its international obligations and fully acted on the UN Security Council's resolutions on economic sanctions and counter-terrorist financing (CTF).

x. Credit policies for key fields

After the outbreak of the COVID-19, the Bank immediately took differentiated risk management measures, and opened green channels to fight against the pandemic. It canceled some prerequisite procedures required by project approval, delegated the approval authorization for special projects, simplified the face-to-face process for lending, and supported the credit for "daily necessities" and "medical supplies" for the purpose of epidemic prevention and control. At the same time, the Bank strengthened its credit support to industries and fields hit by the pandemic, improved policies by postponing repayment of principal and interest of loans to help micro and SMEs affected by the pandemic.

The Bank kept increasing loans for advanced manufacturing industry, especially medium and long-term loans for manufacturing industries, and credit facilities for private enterprises, inclusive finance and key sectors of new infrastructure, new urbanization and major project construction. Meanwhile, the Bank actively supported the transformation and upgrading of the traditional manufacturing industry and the customers in the advanced manufacturing industries such as new-generation information technology industry, aerospace equipment, advanced rail transit equipment, advanced power equipment, high-performance new materials, bio-medicine and high-performance medical devices.

In the real estate sector, the Bank adhered to the overall principle of "houses are built to be lived in, not for speculation", and upheld the business strategy of "aggregate management, prudent implementation, differentiated credit extension and strict risk control". The Bank strictly controlled concentration risk in the real estate industry by exercising mandatory limit management over total credit facilities. In addition to the list-based management of real estate developers, the Bank implemented city-specific policies and adopted differentiated credit policies according to the cities' population, inventory, land supply, regulation and control policies. Following the principle of "selecting the top best", the Bank strictly reviewed the availability of project capital and developers' own funds, "four certificates" of property developers, as well as project information about land-taking cost, house structure and targeted group of customers. Meanwhile, the Bank strengthened the monitoring of loan use and tracking of project sales, and intensified the closed-off management of funds. The Bank's credit asset quality in the real estate industry remained stable and above the average level of the Bank's all assets.

For industries with excess capacity including steel, coal, photovoltaic, shipbuilding, cement manufacturing, flat glass, aluminum smelting and paper-making industries, the Bank firmly conducted the supply-side structural reform and continuously resolved the problem of severe overcapacity. Since the *Guiding Opinions of the State Council on Resolving the Problem of Serious Overcapacity* (Guo Fa [2013] No. 41) was released, the Bank has steadily pushed forward the work of resolving excess capacity, and adjusted its asset structure and optimized the layout. The proportion of the Bank's credit exposures to industries with excess capacity continued to decline.

XVII. OUTLOOK OF THE BANK

i. Fulfillment of business plan

The outbreak of COVID-19 pandemic aggravated and complicated the operational environment in banking. The Bank promptly adjusted its strategies and achieved favorable growth in wealth management and transaction banking, but there were relatively larger impacts on the retail banking sector by the pandemic and the increase in income from credit card business declined.

ii. Potential risks and countermeasures

In 2020, internationally speaking, the world economy is struggling to bottom out in such a severe and complicated economic situation with sluggish international trade, due to the global outbreak of the COVID-19 pandemic. From the domestic perspective, China is in the critical period of tackling key problems in changing its development model, upgrading economic structure and transforming the driving forces of growth. Coupled with the impact of global COVID-19 pandemic, China was faced with decline in domestic consumption, investment, imports and exports over the same period of last year, as well as employment pressure. However, China has made great progress at the current stage of pandemic prevention and control and the resumption of work and production. China's economic growth remains resilient, and the fundamentals of China's long-term sound economic growth have not changed.

Focusing on the strategic vision of "building a first-class wealth management bank", and with a commitment to the general principle of "making progress in stability, seeking opportunities amid changes and pursuing innovation during progress", the Bank will emphasize on the following key tasks: First, the Bank shall implement national strategies, decisions and plans, fulfill its responsibilities as a financial national team, actively serve the real economy, support enterprises in work and production resumption, and contribute to the stability of Chinese economic fundamentals. Second, the Bank shall further promote the implementation of its strategies, highlight its wealth management features and accelerate retail banking transformation. Third, the Bank shall further improve its digital banking development system, increase investment in technology, promote technology empowerment and build a technology bank. Fourth, the Bank shall strengthen comprehensive risk management and continuously improve asset quality to ensure the sustainable and healthy development of its business operations. Fifth, the Bank shall make greater efforts to develop Wealth E-SBU Ecological Collaborative Strategy, strengthen resource sharing in terms of customers, products and channels, and enhance values through coordinated development.

Significant Events

I. IMPORTANT UNDERTAKINGS AND PERFORMANCE OF UNDERTAKINGS GIVEN BY THE BANK AND THE BANK'S DE FACTO CONTROLLERS, CONTROLLING SHAREHOLDERS AND OTHER RELATED PARTIES

During the reporting period, the Bank, its de facto 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 de facto controllers and controlling shareholders were properly fulfilled. Please refer to the 2019 Annual Report of the Bank for more details.

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

The Bank was involved in some litigation and arbitration cases in its regular course of business, most of which were initiated by the Bank for the purpose of collecting non-performing loans. As at the end of the reporting period, the Bank was involved in 636 sued litigation and arbitration cases pending final judgment, which involved RMB2.89 billion. The above litigation and arbitration cases will not have any significant adverse impact on the financial position or operating performance of the Bank.

V. USE OF CAPITAL BY THE CONTROLLING SHAREHOLDERS OF THE BANK OR THEIR RELATED PARTIES FOR NON-OPERATING PURPOSES

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

VI. PENALTY IMPOSED ON THE BANK OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management members, controlling shareholders and de facto controllers was subject to any investigation by the competent authorities, any mandatory measures by the judicial authorities or the disciplinary departments, transferal to the judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by 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 DE FACTO CONTROLLERS

During the reporting period, the Bank, its controlling shareholders and de facto 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

During the reporting period, there was no change in accounting policies of the Bank.

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. Connected transactions occurring or existing during the reporting period are as follows:

i. Non-exempt connected transactions

1. Approval of transaction limit of non-performing assets acquisition for connected legal person Everbright Jin'ou Asset Management Limited ("Everbright Jin'ou")

On 20 June 2019, the Bank agreed to approve a cumulative non-performing asset acquisition limit of RMB4 billion for Everbright Jin'ou with a single transaction under the limit of RMB2 billion. The limit is valid for three years from 20 June 2019, with an annual limit of RMB4 billion. Everbright Jin'ou is a legal person directly controlled by China Everbright Group, a substantial shareholder of the Bank, and is a connected person of the Bank.

2. Approval of bond underwriting amount for connected legal person China Everbright Group

On 6 September 2019, the Bank entered into an agreement with China Everbright Group, pursuant to which, the Bank agreed to provide bond underwriting service to China Everbright Group. The Bank approved the bond underwriting amount of RMB5 billion to China Everbright Group. The underwriting amount is based on the balance management system and is valid for two years with an annual balance cap of RMB5 billion. The annual cap of the underwriting fee is RMB90 million. The issuance factors such as the current underwriting coupon rate under the business will be applied in accordance with the current underwriting approval process, and the guarantee form of the business is credit. China Everbright Group is a substantial shareholder of the Bank and constitutes a connected person of the Bank.

3. Signing of a framework agreement on technology service with connected legal person Everbright Technology Co., Ltd. ("Everbright Technology")

On 20 March 2020, the Bank entered into an agreement with Everbright Technology, pursuant to which, Everbright Technology agreed to provide technology services for the Bank, which is valid from 20 March 2020 to 31 December 2020 (both dates inclusive). The total contract amount under the agreement shall not exceed RMB312.66 million (tax inclusive). Everbright Technology is a wholly-owned subsidiary of China Everbright Group, the Bank's substantial shareholder, and constitutes a connected person of the Bank.

4. Signing of financial leasing agreement with connected legal person Beijing Gubei Shuizhen Tourism Co., Ltd. (北京古北水鎮旅遊有限公司 or "Gubei Tourism")

On 25 May 2020, the Bank's subsidiary Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") as the Lessor entered into a financial leasing agreement with Gubei Tourism as the Lessee, pursuant to which, (i) the Lessor has acquired the leased assets from the Lessee at a consideration of RMB300,000,000, and (ii) the Lessor has agreed to lease the leased assets to the Lessee with the lease period of five years and the total rent of approximately RMB346,067,777, of which the lease principal is RMB300,000,000 and the total lease interest is approximately RMB46,067,777. Gubei Tourism is a legal person indirectly controlled by China Everbright Group, the Bank's substantial shareholder, and constitutes a connected person of the Bank.

ii. Exemptible Connected Transactions

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

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 routine 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 contract, 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 took an active part in poverty alleviation by donating RMB10.29 million to poverty-stricken counties targeted by China Everbright Group. It also launched programs to fight against poverty through stimulating consumption. By making full use of the e-commerce platform "Wonderful E-Shopping" to broaden sales channels for specialty products from poverty-stricken regions and conducting welfare procurement, the Bank accumulatively helped a total of 46 national-level poverty-stricken counties in 12 provinces to sell 613,300 products worth RMB52.13 million. In the meantime, the Bank contributed to poverty alleviation by supporting local industrial development, and the balance of loans for targeted poverty alleviation registered RMB22,497 million, an increase of RMB2,826 million from the end of last year, which has met the regulatory requirement of "continuous increase of outstanding loans for targeted poverty alleviation", with the completion rate of 353% for its credit programs. In addition, the Bank provided credit assistance for industrial poverty alleviation in areas of extreme poverty, including the "Three Regions and Three Prefectures", i.e., Tibet Autonomous Region, Tibetan ethnic areas in the provinces of Sichuan, Yunnan, Gansu, and Qinghai, and four prefectures in southern Xinjiang, i.e., Hotan, Aksu, Kashgar, and Kizilsu Kirghiz, and the "three autonomous prefectures", i.e., Linxia in Gansu Province, Liangshan in Sichuan Province, and Nujiang in Yunnan Province, as well as in 52 poverty-stricken counties. The accumulative poverty alleviation loans for local industrial development reached RMB144 million, hence indirectly driving the income increase of poverty-stricken population. To alleviate poverty through financial services, the Bank set up outlets in all targeted poverty alleviation counties of China Everbright Group, emphasized primary-level financial services, and drove development through inclusive finance. Meanwhile, the Bank leveraged on the leading role of Party-building in poverty alleviation, carried out various "Party-building + paired assistance" campaigns in various forms, and provided assistance for targeted poverty-stricken households on a one-to-one basis. In the second half of the year, the Bank will continue to give full play to its advantages as a financial institution, double efforts in various means of poverty alleviation, including industrial support, consumption of products, strengthening Party-building and education, thereby making its due contributions to winning the battle against poverty.

Significant Events

ii. Consumer rights protection

During the reporting period, the Bank's financial knowledge publicity and education activities covered 16.7091 million person-times, with a reading volume of about 8.1661 million times from original WeChat official accounts, Sina Weibo and official website of the Bank, and a total of 46,500 times from other media. Through a variety of publicity activities, the Bank continued to expand its audience base for financial knowledge popularization and improve consumer financial literacy. In the campaign of "3.15 Consumer Protection Education and Publicity Week" held by CBIRC, the Bank was named "excellent organizer". In the publicity video contest of "Promoting Financial Knowledge, Protecting Personal Wealth", jointly carried out by the Central Bank and *Financial News*, the Bank's work was rated as "Excellent". In the meantime, the Bank continued to strengthen the management of complaints with prompt and efficient responses to customer demands. During the reporting period, the Bank received a total of 7,040 complaints.

iii. Environment information

The Bank made vigorous efforts to develop green finance, support the development of energy-saving and eco-friendly industries, engaged in green operation and undertook environment-friendly public welfare activities. The Bank is not on the list of key pollutant discharging enterprises announced by the environmental protection authority.

XIII. OTHER SIGNIFICANT EVENTS

i. Equity change

Upon the approval from Ministry of Finance and CBIRC, CHI transferred 10,250,916,094 A shares it held in the Bank (representing 19.53% of the total share capital of the Bank) to China Everbright Group. Upon the completion of the equity change on 9 July 2020, CHI no longer directly held any shares of the Bank, and China Everbright Group directly held 23,599,821,370 shares of the Bank (including 21,816,856,370 A shares and 1,782,965,000 H shares), representing 44.96% of the total share capital of the Bank. As the Bank's controlling shareholder is China Everbright Group, there was no change in the Bank's de facto controller. For more details on the equity change, please refer to the Bank's announcements dated 3 May 2020 and 6 May 2020, and overseas regulatory announcements dated 22 May 2020, 29 May 2020, 29 June 2020 and 10 July 2020.

ii. Progress in the issuance of non-fixed term capital bonds

In May 2019, the Shareholders' General Meeting of the Bank reviewed and approved the *Proposal on Issuance of Non-fixed Term Capital Bonds*, and agreed to issue non-fixed-term capital bonds of no more than RMB40 billion or equivalent in foreign currencies. As at the end of the reporting period, this matter is still in progress.

iii. Opening for business of Beijing Sunshine Consumer Finance Co., Ltd.

In January 2020, CBIRC approved the establishment of Beijing Sunshine Consumer Finance Co., Ltd. in Beijing by the Bank. On 17 August 2020, the company was opened for business.

iv. Progress in establishment of CEB Tokyo Representative Office

In January 2020, CBIRC and Japan's Financial Services Agency successively approved the Bank's application for establishing CEB Tokyo Representative Office. As at the end of the reporting period, this preparation work is in progress.

v. Completion of the profit distribution for 2019

At the Annual General Meeting held on 5 June 2020, the Bank considered and approved the profit distribution plan for ordinary shares for 2019, and distributed cash dividends to all ordinary shareholders at RMB2.14 (before tax) per 10 shares. As at the disclosure date of this report, all the cash dividends totaling RMB11,233 million have been distributed.

XIV. SIGNIFICANT EVENTS OF SUBSIDIARIES

i. Everbright Financial Leasing Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

ii. Everbright Wealth Management Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

iii. CEB International Investment Corporation Limited

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

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

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

v. Shaoshan Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

vi. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

vii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition or disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

XV. REVIEW OF INTERIM RESULTS

Ernst & Young (EY), 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 2020.

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 HKEX and the Bank. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

Changes in Ordinary Share Capital and Shareholders

I. CHANGES IN SHARES

Unit: share, %

	31 December 2019		Changes during the reporting period	30 June 2020	
	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
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	46,679,323,101	88.93	9,564	46,679,332,665	88.93
1. RMB-denominated ordinary shares	39,810,587,601	75.84	9,564	39,810,597,165	75.84
2. Overseas listed foreign shares	6,868,735,500	13.09	–	6,868,735,500	13.09
III. Total shares	52,489,323,101	100.00	9,564	52,489,332,665	100.00

II. NUMBER OF SHAREHOLDERS

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	190,799	889

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 2020, 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 TEN 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.	State-owned 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	Overseas legal person	-129,000	H shares	11,057,165,380	21.07	Unknown
Overseas Chinese Town Holdings Company	State-owned 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.	State-owned legal person	–	H shares	1,530,397,000	2.92	–
Central Huijin Investment Ltd.	State-owned legal person	–	A shares	10,250,916,094	19.53	–
China Everbright Limited	Overseas legal person	–	A shares	1,572,735,868	3.00	–
China Securities Finance Corporation Limited	State-owned legal person	–	A shares	1,550,215,694	2.95	–
China Reinsurance (Group) Corporation	State-owned legal person	–	A shares	413,094,619	0.79	–
		–	H shares	376,393,000	0.72	–
Shenergy (Group) Co., Ltd.	State-owned legal person	–	A shares	766,002,403	1.46	–
COSCO Shipping (Shanghai) Investment Management Co., Ltd.	State-owned legal person	–	A shares	723,999,875	1.38	–
Hong Kong Securities Clearing Company Ltd.	Overseas legal person	-91,080,302	A shares	713,678,684	1.36	–
Central Huijin Asset Management Ltd.	State-owned legal person	–	A shares	629,693,300	1.20	–

Changes in Ordinary Share Capital and Shareholders

Notes:

1. As at the end of reporting period, 1,610 million H shares held by China Everbright Group and 4,200 million 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 China 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 China Everbright Group. China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation. COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited. Save for the above, the Bank is not aware of any related 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 11,057,165,380 H shares as at the end of the reporting period. Among them, 4,200,000,000, 1,605,286,000, 1,530,397,000, 376,393,000 and 172,965,000 H shares of the Bank were held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Reinsurance (Group) Corporation and China Everbright Group, respectively. The number of remaining H shares of the Bank held under it was 3,172,124,380 H shares.

4. As at the end of reporting period, as the nominee holder, Hong Kong Securities Clearing Company Ltd. held, designated by and on behalf of others, 713,678,684 A shares of the Bank in total, including the shares under Shanghai Stock Connect held by Hong Kong and overseas investors.

5. CHI transferred the 10,250,916,094 A shares it directly held in the Bank to China Everbright Group on 9 July 2020, and no longer directly held any shares of the Bank. China Everbright Group directly held 23,599,821,370 shares of the Bank, and CHI's shareholding percentage in China Everbright Group changed to 63.16%. For more details on the equity change, please refer to "Significant Events".

V. DATE OF TRADING FOR SHARES SUBJECT TO TRADING MORATORIUM

Unit: Share

Time	Number of shares available for trading 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	46,679,332,665

VI. SHAREHOLDING OF TOP TEN HOLDERS OF SHARES SUBJECT TO TRADING MORATORIUM AND SPECIFIC TRADING MORATORIUM

Unit: Share

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

VII. SUBSTANTIAL SHAREHOLDERS

i. Controlling Shareholder

As at the disclosure date of the report, China Everbright Group directly held 44.96% shares of the Bank. As the Bank's controlling shareholder, the company's controlling shareholder is CHI, with the shareholding percentage up to 63.16%. There is no pledge or freezing of the company's equity.

ii. Other Substantial Shareholders Holding Shares of More Than 5% of the Bank

Overseas Chinese Town Holdings Company directly holds 8% shares of the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is the State-owned Assets Supervision and Administration Commission of the State Council of China, with the shareholding percentage up to 100%. There is no pledge or freezing of the company's equity.

iii. Other Substantial Shareholders under Regulatory Standards

In accordance with the *Interim Measures for Equity Management of Commercial Banks* (Decree No.1 of CBRC in 2018), substantial shareholders of the Bank also include:

1. China COSCO Shipping Corporation Limited indirectly holds 4.44% shares of the Bank through its subsidiaries, COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited, and dispatches directors to the Bank. Therefore, China COSCO Shipping Corporation Limited is a substantial shareholder of the Bank. There is no pledge or freezing of the company's equity.

2. China Reinsurance (Group) Corporation, directly and indirectly holds 4.42% of the Bank's shares, is a substantial shareholder of the Bank and 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.

3. China Everbright Limited directly holds 3% of the Bank's shares and 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.

4. Shenergy (Group) Co., Ltd. directly holds 1.46% of the Bank's shares and dispatches 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.

iv. Related Party Transactions with the Substantial Shareholders of the Bank

In accordance with the *Interim Measures for Equity Management of Commercial Banks*, the Bank has treated more than 2,200 enterprises including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries as the Bank's related parties. During the reporting period, the Bank incurred 33 related party transactions with 30 related parties, involving a total amount of RMB48,589 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 in accordance with related procedures.

Changes in Ordinary Share Capital and Shareholders

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 2020, as 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 or 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	Class of share	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	3.06
China Shipping (Group) Company[1]	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
COSCO Shipping Financial Holdings Co., Limited[1]	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
Ocean Fortune Investment Limited[1]	H Shares	Beneficial owner	Long	1,605,286,000	12.66	3.06
Central Huijin Investment Ltd.[2]	H Shares	Interest of controlled corporation	Long	3,773,385,000	29.76	7.19
China Everbright Group Ltd.[2]	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.56
China Reinsurance (Group) Corporation[2]	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.04	3.63
China Life Reinsurance Company Ltd.[2]	H Shares	Beneficial owner	Long	1,530,397,000	12.07	2.92
Overseas Chinese Town Holdings Company	H Shares	Beneficial owner	Long	4,200,000,000	33.13	8.00
China Everbright Group Ltd.[3]	A Shares	Beneficial owner/Interest of controlled corporation	Long	25,922,412,492	65.11	49.39
Central Huijin Investment Ltd.[3]	A Shares	Beneficial owner/Interest of controlled corporation	Long	26,965,200,411	67.73	51.37

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, which 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 are all deemed to own interests 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. China Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 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 Group Holdings Company Limited is wholly-owned by China Everbright Group, while 63.16% of the issued share capital of China Everbright Group is held by CHI. In accordance with the HKSFO, China Reinsurance (Group) Corporation is deemed to own interests in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group is deemed to own interests in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to own interests in a total of 3,773,385,000 H shares of the Bank indirectly.

3. China Everbright Group directly holds a long position in 24,133,120,466 A shares of the Bank, and is deemed to indirectly hold a long position in a total of 1,789,292,026 A shares of the Bank through its subsidiaries as follows:

   (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. directly holds a long position of 60,399,900 A shares of the Bank.

Therefore, China Everbright Group directly and indirectly holds a long position of 25,922,412,492 A shares of the Bank in total.

China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 63.16% of the issued share capital of China Everbright Group are held by CHI respectively. In accordance with the HKSFO, CHI is deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and the long position in 25,922,412,492 A shares held by China Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,965,200,411 A shares of the Bank in total.

4. As at 30 June 2020, the total issued share capital of the Bank was 52,489,332,665 shares, including 39,810,597,165 A shares and 12,678,735,500 H shares.

5. The percentage of shareholdings is rounded to two decimal places.

6. The above disclosed data are based on the information disclosed on the website of HKEX and the information obtained by the Bank as at the end of the reporting period.

Save as disclosed above, as at 30 June 2020, 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 2020, as far as the directors and supervisors of the Bank were 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* (“*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 Share Capital and Shareholders

I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE REPORTING PERIOD

During the reporting period, the Bank had not issued or listed preference shares, and all existing preference shares were traded on the SSE Comprehensive Business Platform.

II. TOTAL NUMBER OF PREFERENCE SHAREHOLDERS AND SHAREHOLDINGS OF TOP TEN PREFERENCE SHAREHOLDERS

i. Everbright P1 (Code 360013)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)			18			
Name of 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	–
TruValue Asset Management Co., Ltd.	Others	–	15,510,000	7.76	Domestic preference shares	–
BOC International (China) Co., Ltd.	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., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
Ping An Property & Casualty Insurance Company of China Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
Ping An Life Insurance Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–

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

ii. Everbright P2 (Code 360022)

Unit: Share, %

Name of 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
Number of preference shareholders as at the end of the reporting period (shareholder)			23			
AXA SPDB Investment Managers Co., Ltd.	Others	–	16,470,000	16.47	Domestic preference shares	–
AEGON-Industrial Capital Management (Shanghai) Co., Ltd.	Others	–	13,090,000	13.09	Domestic preference shares	–
China Everbright Group Ltd.	State-owned legal person	–	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	–
Bank of Hangzhou Co., Ltd.	Others	–	3,270,000	3.27	Domestic preference shares	–
HuaAn Future Asset Management (Shanghai) Limited	Others	–	3,270,000	3.27	Domestic preference shares	–
BOC International (China) 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: China Everbright Group Ltd. is one of the top ten shareholders of the ordinary shares of the Bank. Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected relations. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top ten shareholders of ordinary shares.

iii. Everbright P3 (Code 360034)

Unit: Share, %

Name of 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
Number of preference shareholders as at the end of the reporting period (shareholder)			21			
Ping An Life Insurance Co., Ltd.	Others	–	84,110,000	24.04	Domestic preference shares	–
China Life Insurance Company Limited	Others	–	47,720,000	13.63	Domestic preference shares	–
CCB Trust Co., Ltd.	Others	–	31,810,000	9.09	Domestic preference shares	–
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	27,270,000	7.79	Domestic preference shares	–
New China Life Insurance Company Limited	Others	–	27,270,000	7.79	Domestic preference shares	–
Ping An Property & Casualty Insurance Company of China Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–
CITIC-Prudential Life Insurance Company Limited	Others	–	15,000,000	4.28	Domestic preference shares	–
Bosera Asset Management Co., Limited	Others	–	13,630,000	3.89	Domestic preference shares	–
Postal Savings Bank of China Co., Ltd.	Others	–	13,630,000	3.89	Domestic preference shares	–
China Post & Capital Fund Management Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
Taiping Life Insurance Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
Bank of Beijing Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
BOC International (China) Co., Ltd.	Others	9,090,000	9,090,000	2.60	Domestic preference shares	–

Note: Ping An Life Insurance Co., Ltd. and Ping An Property & Casualty Insurance Company of China Ltd. are related parties. Postal Savings Bank of China Co., Ltd. and China Post & Capital Fund Management Co., Ltd. are related parties. Save as disclosed above, the Bank is not aware of any related party relationship or concerted actions among the above shareholders of preference shares and the top ten shareholders of ordinary shares.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

As reviewed and approved by the 12th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of the third tranche of the issuance of preference shares (Everbright P3) on 17 April 2020. The total dividends of RMB768.66 million (before tax) were distributed with a dividend rate of 4.80% (before tax).

As reviewed and approved by the 16th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of the first tranche of the issuance of preference shares (Everbright P1) on 29 June 2020. 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 17th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of the second tranche of the issuance of preference shares (Everbright P2) on 11 August 2020. 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. ACCOUNTING POLICIES FOR PREFERENCE SHARES OF THE BANK AND REASONS FOR ADOPTION

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 the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by Ministry of Finance, the preference shares issued by the Bank were accounted for as an equity instrument.

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 billion 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 SSE (bond name: Everbright Convertible Bonds, stock code: 113011).

II. HOLDERS OF CONVERTIBLE BONDS AND GUARANTORS DURING THE REPORTING PERIOD

Unit: RMB, %

Convertible bond holders at the period end (holder)	4,599	
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)	3,434,263,000	11.45
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of China)	1,652,651,000	5.51
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank)	1,107,081,000	3.69
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of Communications)	837,294,000	2.79
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank)	714,820,000	2.38
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Minsheng Banking Corporation Limited)	534,003,000	1.78
China Merchants Wealth – PSBC – Postal Savings Bank of China Co., Ltd.	531,469,000	1.77
Specific account for collateralized bond repurchase in the securities depository and clearing system (Agricultural Bank of China)	438,409,000	1.46
Specific account for collateralized bond repurchase in the securities depository and clearing system (Shanghai Pudong Development Bank)	336,454,000	1.12

III. CHANGES IN CONVERTIBLE BONDS

During the reporting period, a total of RMB38,000 "Everbright Convertible Bonds" were converted into A shares of the Bank, and the number of converted shares reached 9,564.

IV. PREVIOUS ADJUSTMENTS OF CONVERSION PRICE

On 23 June 2020 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2019. 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 RMB3.97 per share to RMB3.76 per share as of 24 June 2020 (the ex-dividend date). Previous adjustments of conversion price were as follows:

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	Ibid.	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	Ibid.	Due to profit distribution for ordinary A shares for 2017
26 June 2019	3.97	18 June 2019	Ibid.	Due to profit distribution for ordinary A shares for 2018
24 June 2020	3.76	15 June 2020	Ibid.	Due to profit distribution for ordinary A shares for 2019
Conversion price as at the end of the reporting period				3.76

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 International Credit Rating Co., Ltd. ("CCXI") to track and rate the credit standing of its A share convertible bonds issued in 2017. CCXI issued the *Tracking and Rating Report on A Share Convertible Corporate Bonds (2020) of China Everbright Bank Company Limited* on 27 May 2020 based on the comprehensive analysis and evaluation of the Bank's operation status and the industry situation, maintaining the credit rating of the bond issuer as AAA with a stable outlook and the credit rating of Everbright Convertible Bonds as AAA. The rating results incurred no change from the previous ones. 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 and Business 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 MEMBERS

As at the disclosure date of this report, the Board of Directors consisted of 13 Directors, including 2 Executive Directors (Mr. Liu Jin and Mr. Lu Hong), 5 Non-Executive Directors (Mr. Li Xiaopeng, Mr. Wu Lijun, Mr. Cai Yunge, Mr. Liu Chong, and Ms. Yu Chunling), and 6 Independent Non-Executive Directors (Mr. Xu Hongcai, Mr. Feng Lun, Mr. Wang Liguo, Mr. Shao Ruiqing, Mr. Hong Yongmiao, and Mr. Li Yinquan).

As at the disclosure date 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. Wu Gaolian, Mr. Wang Zhe, and Mr. Qiao Zhimin), and 3 Employee Supervisors (Mr. Xu Keshun, Mr. Sun Jianwei, and Mr. Shang Wencheng).

As at the disclosure date of this report, the Senior Management was composed of 9 members. They are Mr. Liu Jin, Mr. Lu Hong, Mr. Wu Chongkuan, Mr. Yao Zhongyou, Mr. Huang Haiqing, Mr. Qu Liang, Mr. Li Jiayan, Ms. Qi Ye, and Mr. Yang Bingbing.

III. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Appointment and Resignation of Directors

1. On 25 March 2020, CBIRC approved Mr. Wu Lijun's qualifications for serving as Non-executive Director and Vice Chairman of the Bank.

2. On 25 March 2020, CBIRC approved Mr. Liu Jin's qualifications for serving as Executive Director of the Bank.

3. On 26 March 2020, the Bank's 2020 First Extraordinary General Meeting elected Mr. Li Yinquan as Independent Non-Executive Director of the Bank. On 11 June 2020, CBIRC approved the qualification of Mr. Li Yinquan for serving as Independent Non-Executive Director. Due to the expiry of term of office, Ms. Fok Oi Ling Catherine ceased to be Independent Non-Executive Director of the Bank, and ceased to act as the Chairperson and member of the Related Party Transactions Control Committee, member of the Audit Committee, member of the Nomination Committee, and member of the Remuneration Committee of the Board of Directors of the Bank.

4. On 27 July 2020, due to work adjustment, Mr. He Haibin resigned from the positions as Non-executive Director of the Bank, member of the Audit Committee, and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

5. On 28 July 2020, due to equity change and work adjustment, Mr. Wang Xiaolin resigned from the positions as Non-executive Director of the Bank, Chairman and member of the Risk Management Committee, member of the Strategy Committee, and member of the Remuneration Committee of the Board of Directors of the Bank.

6. On 28 July 2020, due to equity change and work adjustment, Mr. Shi Yongyan resigned from the positions as Non-executive Director of the Bank, member of the Nomination Committee, and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

7. On 28 July 2020, due to equity change and work adjustment, Mr. Dou Hongquan resigned from the positions as Non-executive Director of the Bank, member of the Strategy Committee, and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

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 13 January 2020, CBIRC approved Mr. Liu Jin's qualifications for serving as President of the Bank.

2. On 5 March 2020, CBIRC approved Mr. Qu Liang's qualifications for serving as Vice President of the Bank.

3. On 19 May 2020, due to work adjustment, Mr. Sun Qiang resigned from the position as Vice President of the Bank.

4. On 19 May 2020, the 15th meeting of the Eighth Session of the Board of Directors approved to appoint Ms. Qi Ye and Mr. Yang Bingbing as Vice Presidents of the Bank. On 24 July 2020, CBIRC approved their qualifications for serving as Vice Presidents of the Bank.

IV. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. Mr. Xu Hongcai, Independent Non-Executive Director of the Bank, concurrently served as Independent Non-Executive Director of Bank of Hebei Co., Ltd.

2. Mr. Wang Liguo, Independent Non-Executive Director of the Bank, concurrently served as Director of Dalian Yadong Investment Consulting Co., Ltd. and ceased to serve as its Chairman.

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 45,004 employees (excluding those of subsidiaries).

As at the end of the reporting period, the Bank had 1,290 domestic branches and outlets, which consisted of 39 tier-1 branches, 113 tier-2 branches, and 1,138 outlets, representing an increase of 3 branches and outlets over the end of the previous year. The Bank has established 4 overseas branches which are Hong Kong Branch, Seoul Branch, Luxembourg Branch and Sydney Branch. Tokyo Representative Office is under preparation for establishment.

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

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	6,781	3,478,631	China Everbright Center, No. 25 Taipingqiao Street, Xicheng District, Beijing
Beijing Branch	70	2,718	613,566	No. 1 Xuanwumen Nei Street, Xicheng District, Beijing
Shanghai Branch	56	1,797	334,803	No. 1118 Century Avenue, Pudong New Area, Shanghai
Tianjin Branch	34	957	74,754	Annex Building of Zhonglian Building, No. 83 Qufu Avenue, Heping District, Tia njin City
Chongqing Branch	27	932	89,203	No. 168 Minzu Road, Yuzhong District, Chongqing City
Shijiazhuang Branch	55	1,342	108,400	No. 56 Yuhua East Road, Qiaodong District, Shijiazhuang City
Taiyuan Branch	37	1,066	117,641	No. 295 Yingze Street, Taiyuan City
Huhhot Branch	20	592	45,730	Tower D, Dongfangjunzuo, Chilechuan Street, Saihan District, Huhhot City
Dalian Branch	24	699	43,736	No. 4 Wuwu Road, Zhongshan District, Dalian City
Shenyang Branch	38	1,201	69,608	No. 156 Heping North Street, Heping District, Shenyang City
Changchun Branch	38	956	52,686	No. 2677 Jiefang Road, Changchun City
Heilongjiang Branch	38	1,068	47,659	No. 278 Dongdazhi Street, Nangang District, Harbin City
Nanjing Branch	55	1,604	268,842	No. 120 Hanzhong Road, Nanjing City
Suzhou Branch	21	872	105,523	No. 188 Xinghai Street, Industrial Park District, Suzhou City
Wuxi Branch	9	356	74,769	No. 1 Renmin Middle Road, Wuxi City
Hangzhou Branch	40	1,281	232,034	Zheshang Times Building, No. 1 Miduqiao Road, Gongshu District, Hangzhou City
Ningbo Branch	19	762	68,130	No. 1 Building, Hengfu Plaza, No. 828 Fuming Road, Jiangdong District, Ningbo City
Hefei Branch	55	1,422	163,813	No. 200 Changjiang West Road, Hefei City
Fuzhou Branch	42	1,309	79,975	No. 1 Building, Zhengxiang Center, No. 153 Wuyi North Road, Shuibu Sub-district, Gulou District, Fuzhou City
Xiamen Branch	17	528	41,481	Mingfang Building, No. 160 Hubin Middle Road, Siming District, Xiamen City
Nanchang Branch	29	760	77,348	No. 399 Guangchang South Road, Nanchang City
Jinan Branch	37	958	70,346	No. 85 Jingqi Road, Jinan City
Qingdao Branch	35	1,020	72,492	No. 69 Hongkong West Road, Qingdao City
Yantai Branch	15	486	45,180	No. 111 Nandajie Street, Yantai City
Zhengzhou Branch	49	1,327	141,033	No. 18 Nongye Road, Zhengzhou City

Directors, Supervisors, Senior Management, Staff and Business Outlets

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Wuhan Branch	38	1,083	101,945	No. 143-144 Yanjiang Avenue, Jiang'an District, Wuhan City
Changsha Branch	65	1,511	110,215	No. 142 Section 3 of Furong Middle Road, Tianxin District, Changsha City
Guangzhou Branch	91	2,501	291,606	No. 685 Tianhe North Road, Guangzhou
Shenzhen Branch	50	1,211	214,272	No. 18 Zizhuqi Avenue and Zhuzilinsi Road, Shenzhen City
Nanning Branch	31	874	61,490	Oriental Manhattan Plaza, No. 52-1 Jinhu Road, Nanning City
Haikou Branch	23	736	41,966	1-13/F, Jinlong City Plaza Building, South of Jinlong Road, Haikou City
Chengdu Branch	30	957	87,792	No. 79 Dacisi Road, Chengdu City
Kunming Branch	23	738	42,127	No. 28 Renmin Middle Road, Kunming City
Xi'an Branch	39	1,101	79,974	No. 33 Hongguang Street, Xi'an City
Urumqi Branch	7	197	13,798	No. 165 Nanhu East Road, Urumqi City
Guiyang Branch	13	369	30,441	West Tower III, Guiyang International Financial Center, Guanshanhu District, Guiyang City
Lanzhou Branch	11	313	22,177	No. 555 Donggang West Road, Chengguan District, Lanzhou City
Yinchuan Branch	5	141	5,371	No. 219 Jiefang West Street, Xingqing District, Yinchuan City
Xining Branch	2	90	5,795	No. 57-7 Wusi West Road, Chengxi District, Xining City
Lhasa Branch	2	64	4,618	Taihe International Culture Square, No. 7 Jinzhu Middle Road, Chengguan District, Lhasa City
Hong Kong Branch	1	207	161,705	23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong
Seoul Branch	1	38	20,055	23/F, Youngpoong Building, 41 Cheonggyecheon-ro, Jongro-ku, Seoul Special City
Luxembourg Branch	1	41	23,400	10 Avenue Emile Reuter, Luxembourg City
Sydney Branch	1	38	21,633	28/F, International Tower 1, 100 Barangaroo Avenue, Sydney
Adjustment on consolidation			-2,574,130	
Total	1,295	45,004	5,283,633	

Note:

The employees of the Head Office of the Bank included 2,931 staff members in the Credit Card Center and 1,747 staff members in the Remote Banking Center.

Corporate Governance

I. OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, the Board of Directors of the Bank considered and approved the proposal on the equity change of China Everbright Group and CHI, further streamlining the shareholding relationship. Pursuant to regulatory requirements and work arrangement, the Board revised the terms of reference of special committees to ensure compliant and effective operation. It reviewed the plan and authorization of the issuance of financial bonds and submitted to the shareholders' general meeting for voting and approval, further expanding the channels of long-term stable fund and improving the asset and liability structure. It also reviewed the quotas for poverty alleviation and external donation for unexpected emergencies for the year 2020 and submitted to the shareholders' general meeting for voting and approval, so as to actively perform the Bank's social responsibilities. It made further improvements to its related party transactions management mechanism and strictly reviewed major related party transactions.

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 and annual profit distribution plan of the Bank, fulfilled its duties of financial supervision, and strengthened the supervision over strategy implementation, internal control and risk management, pushed forward supervision in all respects with high quality, and played a better role in supervision.

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

II. SHAREHOLDERS' GENERAL MEETINGS

The Bank organizes shareholders' general meetings in strict compliance with the Articles of Association and Rules of Procedures of the Shareholders' General Meeting 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 26 March 2020, the Bank convened the 2020 First Extraordinary General Meeting, considered and approved 3 proposals on the election of independent non-executive directors, adjustment to the remuneration standards of independent non-executive directors and external supervisors.

On 5 June 2020, the Bank convened the 2019 Annual General Meeting, considered and approved 10 proposals on the 2019 work report of the Board of Directors, the 2019 work report of the Board of Supervisors, the final accounts report and budget plan, the profit distribution plan, the remuneration of the directors and supervisors, the plan and authorization of the issuance of financial bonds, and the quotas for poverty alleviation and external donation for unexpected emergencies, and heard 2 reports.

The procedures for convening, issuing the notices, 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 A share lawyer issued relevant legal opinions.

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 3 on-site meetings, namely the 12th, 15th and 16th meetings of the Eighth Session of the Board of Directors, and 5 meetings via written resolutions, namely the 9th, 10th, 11th, 13th and 14th meetings of the Eighth Session of the Board of Directors. The Board of Directors considered a total of 65 proposals and heard 12 reports, which effectively played 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, 3 meetings of the Audit Committee, 2 meetings of the Risk Management Committee, 2 meetings of the Nomination Committee, 2 meetings of the Remuneration Committee, 5 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 54 proposals in total, heard and studied 23 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 2 meetings, including 1 on-site meeting and 1 meeting via written resolutions, namely the 5th and 6th meetings of the Eighth Session of the Board of Supervisors. The Board of Supervisors considered a total of 15 proposals and heard 7 reports, which effectively performed its supervisory duty.

The special committees of the Board of Supervisors convened 3 meetings in total, including 2 meetings of the Supervision Committee and 1 meeting of the Nomination Committee, and considered 9 proposals in total.

V. INFORMATION DISCLOSURE

During the reporting period, the Bank published the 2019 Annual Report and 2020 First Quarterly Report to fully disclose the development strategy, operations and management of the Bank to domestic and foreign investors. Pursuant to the regulatory rules for information disclosure, 65 A share ad hoc announcements (including online non-announcement documents) and 81 H share ad hoc announcements (including overseas regulatory announcements) were published on SSE and HKEX respectively. Following the new *Securities Law* and relevant regulatory rules, the Bank continued to strengthen the management of insiders to prevent leakage of sensitive information, and ensure the rights of investors to fair access to the information of the Bank.

VI. INVESTOR RELATIONSHIP

During the reporting period, the Bank held the 2019 financial results (A+H shares) announcement and press conference online. Over 100 institutional investors, bank analysts and media correspondents from home and abroad participated in this communication event. Besides, the Bank held online results announcement for the first quarter of 2020, which were attended by over 100 analysts and professional investors from home and abroad. Three field research seminars were arranged for 58 domestic and overseas bank analysts and institutional investors. The Bank participated in 20 investment strategy seminars organized by securities companies and communicated with over 100 institutional investors in total. Additionally, it answered over 190 phone calls from domestic and overseas investors and replied over 80 emails for inquiry. It interacted with investors via online platforms such as “SSE e-interaction”, and updated the contents of the Bank’s Chinese and English websites, delivering the Bank’s information to investors.

VII. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the *Hong Kong Listing Rules* as the code of conduct to govern the securities transactions by directors and supervisors of the Bank. Upon enquiry, all directors and supervisors confirmed that they had always complied with the *Model Code* during the six months ended 30 June 2020. 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 violation of the guidelines during the reporting period.

VII. STATEMENT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE HONG KONG LISTING RULES

During the six months ended 30 June 2020, the Bank applied the principles of the *Corporate Governance Code* stipulated in Appendix 14 to the *Hong Kong Listing Rules*, and complied with all the code provisions.

Report on Review of Interim Financial Information

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

INTRODUCTION

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (together, the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2020 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 2020

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2020 Unaudited	2019 Unaudited
Interest income		111,120	103,050
Interest expense		(56,454)	(53,867)
Net interest income	1	54,666	49,183
Fee and commission income		15,377	14,097
Fee and commission expense		(1,244)	(1,348)
Net fee and commission income	2	14,133	12,749
Net trading gains	3	57	69
Dividend income		1	11
Net gains arising from investment securities	4	2,779	2,974
Net foreign exchange gains		71	778
Other net operating income		450	460
Operating income		72,157	66,224
Operating expenses	5	(19,446)	(18,363)
Operating profit before impairment		52,711	47,861
Credit impairment losses	6	(30,526)	(23,331)
Other impairment losses	7	(147)	(48)
Profit before tax		22,038	24,482
Income tax	8	(3,617)	(3,998)
Net profit		18,421	20,484
Net profit attributable to:			
Equity shareholders of the Bank		18,363	20,444
Non-controlling interests		58	40
		18,421	20,484
Earnings per share			
Basic earnings per share (in RMB/share)	9	0.31	0.37
Diluted earnings per share (in RMB/share)	9	0.28	0.33

The notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2020 Unaudited	2019 Unaudited
Net profit		18,421	20,484
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		1	5
– Related income tax effect	22(b)	–	(1)
Subtotal		1	4
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		507	728
– Changes in allowance for expected credit losses		(252)	248
– Reclassified to the profit or loss upon disposal		(276)	(161)
– Related income tax effect	22(b)	(1)	(183)
– Exchange differences on translation of financial statements		51	4
Subtotal		29	636
Other comprehensive income, net of tax		30	640
Total comprehensive income		18,451	21,124
Total comprehensive income attributable to:			
Equity shareholders of the Bank		18,392	21,084
Non-controlling interests		59	40
		18,451	21,124

The notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2020 Unaudited	31 December 2019 Audited
Assets			
Cash and deposits with the central bank	10	379,643	364,340
Deposits with banks and other financial institutions	11	43,658	31,358
Precious metals		13,430	10,826
Placements with banks and other financial institutions	12	59,423	60,270
Derivative financial assets	13	14,659	13,805
Financial assets held under resale agreements	14	192,506	6,835
Loans and advances to customers	15	2,845,757	2,644,136
Finance lease receivables	16	94,449	83,723
Financial investments	17	1,636,080	1,433,546
– Financial assets at fair value through profit or loss		318,028	211,406
– Debt instruments at fair value through other comprehensive income		207,534	180,005
– Equity instruments at fair value through other comprehensive income		874	623
– Financial investments measured at amortised cost		1,109,644	1,041,512
Fixed assets	19	19,387	19,342
Right-of-use assets	20	11,462	11,684
Goodwill	21	1,281	1,281
Deferred tax assets	22	19,717	16,306
Other assets	23	56,982	35,979
Total assets		5,388,434	4,733,431
Liabilities and equity			
Liabilities			
Due to the central bank	25	167,722	224,838
Deposits from banks and other financial institutions	26	478,539	444,320
Placements from banks and other financial institutions	27	189,515	166,225
Financial liabilities at fair value through profit or loss	28	142	100
Derivative financial liabilities	13	15,725	13,893
Financial assets sold under repurchase agreements	29	27,433	25,603
Deposits from customers	30	3,672,102	3,017,888
Accrued staff costs	31	10,939	8,007
Taxes payable	32	7,751	9,322
Lease liabilities	33	10,893	11,069
Debt securities issued	34	359,887	371,904
Other liabilities	35	56,343	54,208
Total liabilities		4,996,991	4,347,377

	Note III	30 June 2020 Unaudited	31 December 2019 Audited
Liabilities and equity (Continued)			
Equity			
Share capital	36	52,489	52,489
Other equity instrument	37	70,067	70,067
of which: preference shares		64,906	64,906
Capital reserve	38	53,533	53,533
Other comprehensive income	39	2,766	2,737
Surplus reserve	40	26,245	26,245
General reserve	40	59,718	59,417
Retained earnings	41	125,494	120,494
Total equity attributable to equity shareholders of the Bank		390,312	384,982
Non-controlling interests		1,131	1,072
Total equity		391,443	386,054
Total liabilities and equity		5,388,434	4,733,431

Approved and authorised for issue by the board of directors on 28 August 2020.

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

Liu Jin
President
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

The notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2020

		Unaudited										
		Attributable to equity shareholders of the Bank										
			Other equity instrument									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the period:												
Net profit		–	–	–	–	–	–	–	18,363	18,363	58	18,421
Other comprehensive income	39	–	–	–	–	29	–	–	–	29	1	30
Appropriation of profit:	41											
– Appropriation to general reserve		–	–	–	–	–	–	301	(301)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(11,233)	(11,233)	–	(11,233)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,829)	(1,829)	–	(1,829)
Balance at 30 June 2020		52,489	64,906	5,161	53,533	2,766	26,245	59,718	125,494	390,312	1,131	391,443

For the six months ended 30 June 2019

		Unaudited										
		Attributable to equity shareholders of the Bank										
			Other equity instrument									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the period:												
Net profit		–	–	–	–	–	–	–	20,444	20,444	40	20,484
Other comprehensive income	39	–	–	–	–	640	–	–	–	640	–	640
Appropriation of profit:	41											
– Appropriation to general reserve		–	–	–	–	–	–	1	(1)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Balance at 30 June 2019		52,489	29,947	5,161	53,533	2,295	24,371	54,037	111,228	333,061	1,024	334,085

The notes form an integral part of these unaudited condensed consolidated financial statements.

For the year of 2019

		Audited										
		Attributable to equity shareholders of the Bank										
			Other equity instrument									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	39	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	41											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

The notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Cash flows from operating activities		
Net profit	18,421	20,484
Adjustments for:		
Impairment losses on assets	30,673	23,379
Depreciation and amortisation	2,503	2,261
Unwinding of discount	(372)	(433)
Dividend income	(1)	(11)
Unrealised foreign exchange gains	(114)	(3)
Net gains on investment securities	(28,292)	(26,812)
Net gains on disposal of trading securities	(673)	(484)
Revaluation losses on financial instruments at fair value through profit or loss	100	1,377
Interest expense on debt securities issued	5,920	8,243
Interest expense on lease liabilities	243	236
Net losses on disposal of fixed assets	6	6
Income tax	3,617	3,998
	32,031	32,241
Changes in operating assets		
Net increase in deposits with the central bank, banks and other financial Institutions	(9,502)	(4,237)
Net decrease in placements with banks and other financial institutions	6,159	16,822
Net increase in financial assets held for trading	(39,672)	(20,535)
Net increase in loans and advances to customers	(231,656)	(190,681)
Net increase in financial assets held under resale agreements	(185,652)	(29,234)
Net increase in other operating assets	(28,666)	(48,911)
	(488,989)	(276,776)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	34,847	(100,679)
Net increase in placements from banks and other financial institutions	23,679	12,014
Net increase/(decrease) in financial assets sold under repurchase agreements	1,799	(21,762)
Net decrease in amounts due to the central bank	(57,483)	(25,000)
Net increase in deposits from customers	649,522	383,891
Income tax paid	(9,037)	(6,573)
Net increase in other operating liabilities	1,235	17,813
	644,562	259,704
Net cash flows from operating activities	187,604	15,169
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	345,868	242,850
Investment income received	27,786	28,148
Proceeds from disposal of fixed assets and other assets	2	4
Payments on acquisition of investments	(507,352)	(248,317)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(1,238)	(1,339)
Net cash flows (used in) from investing activities	(134,934)	21,346

The notes form an integral part of these unaudited condensed consolidated financial statements.

	Note III	For the six months ended 30 June 2020 Unaudited	2019 Unaudited
Cash flows from financing activities			
Net proceeds from issue of new debt securities		–	1,822
Repayments of debts issued		(10,931)	–
Interest paid on debt securities issued		(7,008)	(9,379)
Dividends paid		(10,555)	(9,510)
Other net cash flows from financing activities		(1,514)	(1,338)
Net cash flows used in financing activities		(30,008)	(18,405)
Effect of foreign exchange rate changes on cash and cash equivalents		831	38
Net increase in cash and cash equivalents	45(a)	23,493	18,148
Cash and cash equivalents as at 1 January		117,499	187,680
Cash and cash equivalents as at 30 June	45(b)	140,992	205,828
Interest received		84,539	78,130
Interest paid (excluding interest expense on debt securities issued)		(45,744)	(40,704)

The notes form an integral part of these unaudited condensed consolidated financial statements.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(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 was licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission No. B0007H111000001 and was issued the business licence 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, the People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note III 18) (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 CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

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 2020 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 2019.

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 2019.

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 2019, except for the adoption of new standards effective as of 1 January 2020.

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies

3.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations.

IFRS 3 Amendments	Definition of a Business
IAS 1 and IAS 8 Amendments	Definition of Material
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

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

(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 2020

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 Cycle (issued in May 2020)		1 January 2022

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

		For the six months ended 30 June	
	Note	2020	2019
Interest income arising from			
Deposits with the central bank		2,570	2,493
Deposits with banks and other financial institutions		461	953
Placements with banks and other financial institutions		667	1,824
Loans and advances to customers	(a)		
–Corporate loans and advances		38,801	34,631
–Personal loans and advances		38,142	34,977
–Discounted bills		1,221	953
Finance lease receivables		2,714	2,073
Financial assets held under resale agreements		497	1,251
Investments		26,047	23,895
Subtotal		111,120	103,050
Interest expenses arising from			
Due to the central bank		3,619	4,030
Deposits from banks and other financial institutions		4,839	6,500
Placements from banks and other financial institutions		2,409	3,389
Deposits from customers			
–Corporate customers		29,166	22,528
–Individual customers		10,202	8,235
Financial assets sold under repurchase agreements		299	942
Debt securities issued		5,920	8,243
Subtotal		56,454	53,867
Net interest income		54,666	49,183

Note:

(a) *The interest income arising from impaired financial assets for the period ended 30 June 2020 amounted to RMB372 million (Six months ended 30 June 2019: RMB433 million).*

(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	
	2020	2019
Fee and commission income		
Bank card service fees	6,253	6,957
Agency services fees	2,144	1,919
Wealth management service fees	1,463	266
Settlement and clearing fees	1,291	1,067
Acceptance and guarantee fees	985	824
Custody and other fiduciary business fees	958	855
Underwriting and advisory fees	907	1,096
Others	1,376	1,113
Subtotal	15,377	14,097
Fee and commission expense		
Bank card transaction fees	889	964
Settlement and clearing fees	81	68
Others	274	316
Subtotal	1,244	1,348
Net fee and commission income	14,133	12,749

3 Net trading gains

	For the six months ended 30 June	
	2020	2019
Trading financial instruments		
– Derivatives	(443)	(393)
– Debt securities	476	535
Subtotal	33	142
Precious metal contracts	24	(73)
Total	57	69

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

4 Net gains arising from investment securities

	For the six months ended 30 June	
	2020	2019
Net gains arising from financial investments at fair value through profit or loss	2,855	2,848
Net losses arising from debt instruments at fair value through other comprehensive income	(545)	(116)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	168	93
Net gains/(losses) arising from financial investments measured at amortised cost	25	(12)
Net revaluation gains reclassified from other comprehensive income on disposal	276	161
Total	2,779	2,974

5 Operating expenses

	For the six months ended 30 June	
	2020	2019
Staff costs		
–Salaries and bonuses	9,108	8,055
–Pension and annuity	557	970
–Housing allowances	471	406
–Staff welfares	173	168
–Others	985	1,045
Subtotal	11,294	10,644
Premises and equipment expenses		
–Depreciation of the right-of-use assets	1,316	1,158
–Depreciation of fixed assets	779	738
–Amortisation of intangible assets	252	189
–Interest expense on lease liabilities	243	236
–Rental and property management expenses	232	265
–Amortisation of other long-term assets	156	176
Subtotal	2,978	2,762
Tax and surcharges	752	695
Other general and administrative expenses	4,422	4,262
Total	19,446	18,363

(Expressed in millions of Renminbi, unless otherwise stated)

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

6 Credit impairment losses

	For the six months ended 30 June	
	2020	2019
Loans and advances to customers		
–measured at amortised cost	29,189	22,780
–measured at fair value through other comprehensive income	86	116
Debt instruments at fair value through other comprehensive income	(344)	133
Financial investments measured at amortised cost	413	(46)
Finance lease receivables	622	344
Others	560	4
Total	30,526	23,331

7 Other impairment losses

	For the six months ended 30 June	
	2020	2019
Other assets	91	48
Others	56	–
Total	147	48

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

8 Income tax

(a) Income tax:

	Note III	For the six months ended 30 June 2020	2019
Current tax		7,489	9,021
Deferred tax	22(b)	(3,413)	(4,905)
Adjustments for prior year	8(b)	(459)	(118)
Total		3,617	3,998

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

	Note	For the six months ended 30 June 2020	2019
Profit before tax		22,038	24,482
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		5,510	6,121
Effect of different tax rates applied by certain subsidiaries		(3)	(3)
Non-deductible expenses			
–Staff costs		34	48
–Impairment losses on assets		720	49
–Others		128	154
Subtotal		882	251
Non-taxable income	(i)	(2,313)	(2,253)
Subtotal		4,076	4,116
Adjustments for prior year		(459)	(118)
Income tax		3,617	3,998

Note:

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

(Expressed in millions of Renminbi, unless otherwise stated)

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

9 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net 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	
	2020	2019
Net profit attributable to equity holders of the Bank	18,363	20,444
Less: Dividends on preference shares declared	1,829	1,060
Net profit attributable to ordinary shareholders of the Bank	16,534	19,384
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.31	0.37

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

	For the six months ended 30 June	
	2020	2019
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

Diluted earnings per share was computed by dividing the net 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	
	2020	2019
Net profit attributable to ordinary shareholders of the Bank	16,534	19,384
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	462	446
Net profit used to determine diluted earnings per share	16,996	19,830
Weighted average number of ordinary shares in issue(in million shares)	52,489	52,489
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,556	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,045	59,753
Diluted earnings per share (in RMB/share)	0.28	0.33

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

10 Cash and deposits with the central bank

	Notes	30 June 2020	31 December 2019
Cash on hand		8,032	4,355
Deposits with the central bank			
–Statutory deposit reserves	(a)	305,865	297,528
–Surplus deposit reserves	(b)	59,672	57,546
–Foreign currency risk reserves	(c)	4,445	3,732
–Fiscal deposits		1,496	1,050
Subtotal		379,510	364,211
Accrued interest		133	129
Total		379,643	364,340

Notes:

(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 2020	*31 December 2019*
Reserve ratio for RMB deposits	*9.00%*	*10.50%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(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 2020, the foreign currency risk reserve ratio was 20% (31 December 2019: 20%).*

(Expressed in millions of Renminbi, unless otherwise stated)

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

11 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
–Banks	16,350	12,868
–Other financial institutions	5,716	528
Deposits outside mainland China		
–Banks	22,058	18,399
Subtotal	44,124	31,795
Accrued interest	27	6
Total	44,151	31,801
Less: Provision for impairment losses	(493)	(443)
Net balances	43,658	31,358

12 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
–Banks	8,439	4,160
–Other financial institutions	9,050	29,777
Placements outside mainland China		
–Banks	41,947	26,291
Subtotal	59,436	60,228
Accrued interest	147	213
Total	59,583	60,441
Less: Provision for impairment losses	(160)	(171)
Net balances	59,423	60,270

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

13 Derivatives and hedge accounting

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.

(a) Analysed by nature of contract

	30 June 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
–Interest rate swaps	1,360,618	10,166	(10,899)
–Interest rate options	200	–	–
–Interest rate futures	25	–	–
Currency derivatives			
–Foreign exchange swaps and cross-currency interest rate swaps	1,120,772	3,860	(4,158)
–Foreign exchange options	37,946	386	(430)
–Foreign exchange forwards	30,334	219	(162)
Credit derivatives	3,265	28	(76)
Total	2,553,160	14,659	(15,725)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
–Interest rate swaps	1,298,443	3,655	(3,680)
Currency derivatives			
–Foreign exchange swaps and cross-currency interest rate swaps	1,365,001	9,483	(9,557)
–Foreign exchange options	78,260	392	(386)
–Foreign exchange forwards	29,168	229	(197)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

(Expressed in millions of Renminbi, unless otherwise stated)

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

13 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	30 June 2020	31 December 2019
Counterparty default risk-weighted assets		
–Interest rate derivatives	980	492
–Currency derivatives	3,396	3,449
–Credit derivatives	274	317
Credit value adjustment	2,223	1,710
Total	6,873	5,968

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment (“CVA”).

The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

As at 30 June 2020, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB2,653 million (31 December 2019: RMB14 million), and the fair value of the derivative financial instrument was RMB-177 million (31 December 2019: RMB-95 thousands).

For the six months ended 30 June 2020, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

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 2020	31 December 2019
In mainland China		
–Banks	5,592	2,000
–Other financial institutions	186,851	4,702
Outside mainland China		
–Other financial institutions	37	126
Subtotal	192,480	6,828
Accrued interest	37	8
Total	192,517	6,836
Less: Provision for impairment losses	(11)	(1)
Net balances	192,506	6,835

(b) Analysed by type of security held

	30 June 2020	31 December 2019
Bonds		
–Government bonds	29,081	2,062
–Other debt securities	162,772	4,766
Bank acceptances	627	–
Subtotal	192,480	6,828
Accrued interest	37	8
Total	192,517	6,836
Less: Provision for impairment losses	(11)	(1)
Net balances	192,506	6,835

(Expressed in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers

(a) Analysed by nature

	30 June 2020	31 December 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,616,572	1,463,630
Discounted bills	71	488
Personal loans and advances		
–Personal housing mortgage loans	440,833	414,211
–Personal business loans	160,648	158,871
–Personal consumption loans	142,023	140,545
–Credit cards	446,692	443,881
Subtotal	1,190,196	1,157,508
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	33,254	26,403
Discounted bills	81,469	64,175
Subtotal	114,723	90,578
Total	2,921,562	2,712,204
Accrued interest	8,488	8,160
Gross loans and advances to customers	2,930,050	2,720,364
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)	(76,228)
Net loans and advances to customers	2,845,757	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)	(438)

As at the end of the reporting period, part of the above loans and advances to customers were pledged for repurchase agreements, see Note III 24(a).

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

15 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	309,743	10.60%	111,222
Water, environment and public utility management	283,903	9.72%	114,508
Real estate	232,625	7.96%	145,334
Leasing and commercial services	191,288	6.55%	73,962
Wholesale and retail trade	126,274	4.32%	46,589
Construction	108,135	3.70%	33,960
Finance	94,401	3.23%	4,496
Transportation, storage and postal services	91,113	3.12%	37,008
Agriculture, forestry, husbandry and fishery	49,807	1.71%	14,971
Production and supply of electricity, gas and water	44,725	1.53%	12,929
Others	117,812	4.03%	38,844
Subtotal of corporate loans and advances	1,649,826	56.47%	633,823
Personal loans and advances	1,190,196	40.74%	581,895
Discounted bills	81,540	2.79%	74,664
Total	2,921,562	100.00%	1,290,382
Accrued interest	8,488		
Gross loans and advances to customers	2,930,050		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)		
Net loans and advances to customers	2,845,757		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)		

(Expressed in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Finance	87,226	3.22%	36,653
Transportation, storage and postal services	76,907	2.84%	12,380
Agriculture, forestry, husbandry and fishery	45,948	1.69%	13,517
Production and supply of electricity, gas and water	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

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

15 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at 30 June 2020, 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 is as follows:

	30 June 2020					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	13,526	(3,230)	(6,143)	(6,392)	3,098	1,172

(c) Analysed by type of collateral

	30 June 2020	31 December 2019
Unsecured loans	903,317	852,885
Guaranteed loans	727,863	637,315
Secured loans		
–By tangible assets other than monetary assets	920,198	862,021
–By monetary assets	370,184	359,983
Total	2,921,562	2,712,204
Accrued interest	8,488	8,160
Gross loans and advances to customers	2,930,050	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)	(76,228)
Net loans and advances to customers	2,845,757	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)	(438)

(Expressed in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	30 June 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	628,662	21.52%	246,828
Central	506,243	17.33%	282,834
Pearl River Delta	375,485	12.85%	243,951
Western	370,701	12.69%	205,252
Bohai Rim	361,693	12.38%	210,935
Northeastern	124,158	4.25%	82,949
Overseas	101,748	3.48%	11,476
Head Office	452,872	15.50%	6,157
Total	2,921,562	100.00%	1,290,382

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

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

15 Loans and advances to customers (continued)

(d) 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 is as follows:

	30 June 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,810	(8,526)	(5,389)	(3,415)
Central	5,088	(5,300)	(3,180)	(3,183)
Bohai Rim	6,579	(2,474)	(2,916)	(3,458)
Western	5,253	(3,782)	(4,120)	(2,700)
Pearl River Delta	4,945	(4,897)	(2,906)	(2,142)
Total	28,675	(24,979)	(18,511)	(14,898)

	31 December 2019			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

For the definition of regional divisions, see Note III 48(b).

(Expressed in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue period

	30 June 2020				
	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	16,494	12,003	953	31	29,481
Guaranteed loans	4,367	4,218	4,746	594	13,925
Secured loans					
– By tangible assets other than monetary assets	7,010	4,382	5,143	1,151	17,686
– By monetary assets	1,040	891	1,682	12	3,625
Subtotal	28,911	21,494	12,524	1,788	64,717
Accrued interest	146	–	–	–	146
Total	29,057	21,494	12,524	1,788	64,863
As a percentage of gross loans and advances to customers	0.99%	0.73%	0.43%	0.06%	2.21%

	31 December 2019				
	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	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
– By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

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

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

15 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	30 June 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,741,374	134,775	45,413	2,921,562	1.55%
Accrued interest	6,537	1,576	375	8,488	
Gross loans and advances to customers	2,747,911	136,351	45,788	2,930,050	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,447)	(27,488)	(25,358)	(84,293)	
Net loans and advances to customers	2,716,464	108,863	20,430	2,845,757	

	31 December 2019				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

(Expressed in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	Note	For the six months ended 30 June 2020 Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(i)	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1		(1,307)	1,258	49	–
Transfer to Stage 2		679	(695)	16	–
Transfer to Stage 3		129	6,212	(6,341)	–
Charge for the period		(11,085)	(7,865)	(15,810)	(34,760)
Release for the period		4,199	1,176	196	5,571
Disposal		–	–	2,643	2,643
Write-off and transfer out		–	–	19,640	19,640
Recovery of loans and advances written off		–	–	(1,529)	(1,529)
Unwinding of discount on allowance		–	–	372	372
Exchange fluctuation and others		(2)	–	–	(2)
As at 30 June 2020	(i)	(31,447)	(27,488)	(25,358)	(84,293)

	Note	2019 Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(i)	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1		(2,089)	2,038	51	–
Transfer to Stage 2		742	(787)	45	–
Transfer to Stage 3		156	2,233	(2,389)	–
Charge for the year		(3,899)	(10,693)	(38,804)	(53,396)
Release for the year		4,365	899	311	5,575
Disposal		–	–	13,826	13,826
Write-off and transfer out		–	–	26,576	26,576
Recovery of loans and advances written off		–	–	(2,428)	(2,428)
Unwinding of discount on allowance		–	–	828	828
As at 31 December 2019	(i)	(24,060)	(27,574)	(24,594)	(76,228)

Note:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 30 June 2020, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB524 million (31 December 2019: RMB438 million).*

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

15 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2020	31 December 2019
Rescheduled loans and advances to customers	11,454	11,888
Of which: Rescheduled loans and advances to customers overdue more than 90 days	535	898

16 Finance lease receivables

	Note	30 June 2020	31 December 2019
Minimum finance lease receivables		112,189	99,825
Less: unearned finance lease income		(15,982)	(14,662)
Present value of minimum lease receivable		96,207	85,163
Accrued interest		1,036	936
Less: impairment losses		(2,794)	(2,376)
Net balance	(i)	94,449	83,723

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

	30 June 2020	31 December 2019
Less than 1 year (inclusive)	27,451	23,619
1 year to 2 years (inclusive)	23,751	20,418
2 year to 3 years (inclusive)	19,046	17,123
3 year to 4 years (inclusive)	14,904	12,628
4 year to 5 years (inclusive)	11,780	9,745
More than 5 years	15,257	16,292
Total	112,189	99,825

Note:

(i) As at the end of the reporting period, part of finance lease receivables were pledged for borrowing from banks, see Note III 24(a).

(Expressed in millions of Renminbi, unless otherwise stated)

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

17 Financial investments

	Notes	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss	(a)	318,028	211,406
Debt instruments at fair value through other comprehensive income	(b)	207,534	180,005
Equity instruments at fair value through other comprehensive income	(c)	874	623
Financial investments measured at amortised cost	(d)	1,109,644	1,041,512
Total		1,636,080	1,433,546

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

	Notes	30 June 2020	31 December 2019
Debt instruments held for trading	(i)	58,732	18,602
Financial assets designated at fair value through profit or loss	(ii)	3	4
Other financial assets at fair value through profit or loss	(iii)	259,293	192,800
Total		318,028	211,406

(i) Debt instruments held for trading

	Notes	30 June 2020	31 December 2019
Issued by the following governments or institutions:			
In mainland China			
– Government		3,438	132
– Banks and other financial institutions		6,660	4,975
– Other institutions	(1)	43,432	9,436
Outside mainland China			
– Banks and other financial institutions		4,006	2,624
– Other institutions		1,196	1,435
Total		58,732	18,602
Listed	(2)	5,947	4,716
Of which: listed in Hong Kong		2,460	1,703
Unlisted		52,785	13,886
Total		58,732	18,602

Notes:

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

(2) At the end of the reporting period, some of the debt instruments held for trading were pledged for repurchase agreements. See Note III 24(a).

(3) Listed investments include debt instruments traded on a stock exchange.

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

17 Financial investments (continued)

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

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

	30 June 2020	31 December 2019
Fixed interest rate personal mortgage loans	3	4

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

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

	30 June 2020	31 December 2019
Fund investments	219,996	159,760
Equity instruments	2,510	2,019
Others	36,787	31,021
Total	259,293	192,800

(Expressed in millions of Renminbi, unless otherwise stated)

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

17 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	30 June 2020	31 December 2019
In mainland China			
– Government		45,782	40,880
– Banks and other financial institutions	(1)	64,134	51,640
– Other institutions	(2)	61,647	56,371
Outside mainland China			
– Government		2,533	98
– Banks and other financial institutions		7,453	7,574
– Other institutions		22,689	19,777
Subtotal		204,238	176,340
Accrued interest		3,296	3,665
Total	(3)(4)	207,534	180,005
Listed	(5)	50,183	43,019
Of which: listed in Hong Kong		34,615	29,884
Unlisted		154,055	133,321
Subtotal		204,238	176,340
Accrued interest		3,296	3,665
Total		207,534	180,005

Notes:

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

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

(3) *As at 30 June 2020, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB485 million (31 December 2019: RMB826 million).*

(4) *At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note III 24(a).*

(5) *Listed investments include debt instruments traded on a stock exchange.*

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

17 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	For the six months ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Net charge for the period	(197)	–	–	(197)
Release for the period	443	–	98	541
Others	(3)	–	–	(3)
As at 30 June 2020	(465)	–	(20)	(485)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Net charge for the year	(343)	–	(116)	(459)
Release for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

(c) Equity instruments at fair value through other comprehensive income

	Notes	30 June 2020	31 December 2019
Equity instruments at fair value through other comprehensive income	(i)	874	623
Listed	(ii)	22	21
Of which: listed in Hong Kong		–	–
Unlisted		852	602
Total		874	623

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 30 June 2020, the fair value was RMB874 million (31 December 2019: RMB623 million). For the six months ended 30 June 2020, the Group has not received any dividend from the above equity instruments (for the six months ended 30 June 2019: RMB11 million).

(ii) Listed investments include equity instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

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

17 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Notes	30 June 2020	31 December 2019
Debt securities	(i)	851,878	773,460
Others	(ii)	246,000	256,649
Subtotal		1,097,878	1,030,109
Accrued interest		16,571	15,786
Total		1,114,449	1,045,895
Less: Provision for impairment losses		(4,805)	(4,383)
Net balance		1,109,644	1,041,512
Listed	(iii)	155,412	139,562
Of which: listed in Hong Kong		21,617	20,905
Unlisted		937,661	886,164
Subtotal		1,093,073	1,025,726
Accrued interest		16,571	15,786
Net balance		1,109,644	1,041,512

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

17 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	30 June 2020	31 December 2019
In mainland China			
– Government		372,116	340,733
– Banks and other financial institutions	(1)	287,056	228,028
– Other institutions	(2)	172,850	183,628
Outside mainland China			
– Government		1,549	1,891
– Banks and other financial institutions		9,738	5,486
– Other institutions		8,569	13,694
Subtotal		851,878	773,460
Accrued interest		13,695	13,140
Total	(3)	865,573	786,600
Less: Provision for impairment losses		(2,071)	(1,657)
Net balance		863,502	784,943
Fair Value		879,145	796,461

Notes:

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

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

(3) As at the end of the reporting period, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions, see Note III 24(a).

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

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

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

17 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	For the six months ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(1)	1	–	–
Transfer to Stage 3	–	75	(75)	–
Net charge for the period	(1,176)	–	(251)	(1,427)
Release for the period	943	4	67	1,014
Exchange fluctuation and others	(9)	–	–	(9)
As at 30 June 2020	(2,756)	(21)	(2,028)	(4,805)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 1	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Net charge for the period	–	(98)	(723)	(821)
Release for the period	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

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

18 Investments in subsidiaries

	Note	30 June 2020	31 December 2019
Everbright Financial Leasing Co., Ltd.		4,680	4,680
CEB International Investment Co., Ltd.		2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd		105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.		70	70
China Everbright Bank Company Limited (Europe)		156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.		105	105
Everbright Wealth Co., Ltd.	(i)	5,000	5,000
Total		12,383	12,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Note i)	Qingdao, Shandong	5,000	100%	100%	Wealth management	Limited company

(i) In September 2019, the Bank registered and established its wholly-owned subsidiary, Everbright Wealth Co., Ltd. ("Everbright Wealth") in Qingdao, Shandong province, with a registered capital of RMB5 billion.

(Expressed in millions of Renminbi, unless otherwise stated)

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

19 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	270	–	104	242	143	759
Disposals	–	–	–	(98)	(46)	(144)
Foreign currency conversion difference	–	81	–	–	–	81
As at 30 June 2020	13,219	5,738	2,314	6,811	4,595	32,677
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the period	(192)	(103)	–	(257)	(227)	(779)
Disposals	–	–	–	92	43	135
Foreign currency conversion difference	–	(7)	–	–	–	(7)
As at 30 June 2020	(4,296)	(518)	–	(5,060)	(3,257)	(13,131)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
As at 30 June 2020	(159)	–	–	–	–	(159)
Net book value						
As at 30 June 2020	8,764	5,220	2,314	1,751	1,338	19,387

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

19 Fixed assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

Notes:

(i) As at 30 June 2020, title deeds were not yet finalised for the premises with a carrying amount of RMB43 million (31 December 2019: RMB45 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

(ii) As at 30 June 2020, Everbright Financial Leasing, 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 RMB5,220 million (31 December 2019: RMB5,249 million). As at the end of the reporting period, part of finance lease receivables were pledged for borrowings from banks, see Note III 24(a).

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

	30 June 2020	31 December 2019
Held in mainland China		
– Medium term leases (10 to 50 years)	8,520	8,454
– Short term leases (less than 10 years)	244	232
Total	8,764	8,686

(Expressed in millions of Renminbi, unless otherwise stated)

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

20 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	1,208	5	1,213
Charge for the period	(366)	(3)	(369)
Foreign currency conversion difference	9	–	9
As at 30 June 2020	14,874	68	14,942
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Charge for the period	(1,308)	(8)	(1,316)
Reduction for the period	240	2	242
Foreign currency conversion difference	(1)	–	(1)
As at 30 June 2020	(3,457)	(23)	(3,480)
Net book value			
As at 30 June 2020	11,417	45	11,462

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

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

21 Goodwill

	30 June 2020	31 December 2019
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 the "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.

22 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2020		31 December 2019	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	78,868	19,717	65,221	16,306
Deferred income tax liabilities	–	–	(6)	(1)
Total	78,868	19,717	65,215	16,305

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
1 January 2020	14,664	(243)	1,884	16,305
Measured through profit or loss	2,114	156	1,143	3,413
Measured through other comprehensive income	67	(68)	–	(1)
30 June 2020	16,845	(155)	3,027	19,717

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

(Expressed in millions of Renminbi, unless otherwise stated)

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

22 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. 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 reporting period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

23 Other assets

	Note	30 June 2020	31 December 2019
Other receivables	(a)	45,320	25,614
Fixed assets purchase prepayment		850	795
Long-term deferred expense		797	871
Intangible assets		1,659	1,646
Repossessed assets		428	478
Land use rights		92	88
Accrued interest		4,364	2,988
Others		3,472	3,499
Total		56,982	35,979

Note:

(a) *Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.*

24 Pledged assets

(a) Assets pledged as collateral

Assets pledged by the Group as collateral for liabilities include discounted bills, debt securities, finance lease receivables and fixed assets. 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 2020 was RMB78,908 million (31 December 2019: RMB86,375 million).

(b) Collateral received

The Group accepted securities as collateral that is permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in six months ended 30 June 2020. As at 30 June 2020, the Group's collateral received from banks and other financial institutions has expired (31 December 2019: Nil). As at 30 June 2020, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2019: Nil). These transactions are conducted under standard terms in the normal course of business.

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

25 Due to the central bank

	30 June 2020	31 December 2019
Due to the central bank	163,997	221,480
Accrued interest	3,725	3,358
Total	167,722	224,838

26 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
– Banks	149,041	170,505
– Other financial institutions	327,264	269,224
Deposits outside mainland China		
– Banks	107	1,836
Subtotal	476,412	441,565
Accrued interest	2,127	2,755
Total	478,539	444,320

27 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
– Banks	104,943	89,480
– Other financial institutions	11,406	1,004
Placements outside mainland China		
– Banks	72,439	74,625
Subtotal	188,788	165,109
Accrued interest	727	1,116
Total	189,515	166,225

28 Financial liabilities at fair value through profit or loss

	30 June 2020	31 December 2019
Short position in debt securities	142	100
Total	142	100

(Expressed in millions of Renminbi, unless otherwise stated)

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

29 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In mainland China		
– Banks	22,505	23,064
Outside mainland China		
– Banks	4,267	2,390
– Other financial institutions	637	131
Subtotal	27,409	25,585
Accrued interest	24	18
Total	27,433	25,603

(b) Analysed by collateral

	30 June 2020	31 December 2019
Debt securities	20,239	14,771
Bank acceptances	7,170	10,814
Subtotal	27,409	25,585
Accrued interest	24	18
Total	27,433	25,603

30 Deposits from customers

	30 June 2020	31 December 2019
Demand deposits		
– Corporate customers	900,884	783,859
– Individual customers	291,724	217,892
Subtotal	1,192,608	1,001,751
Time deposits		
– Corporate customers	1,656,330	1,262,657
– Individual customers	546,317	466,413
Subtotal	2,202,647	1,729,070
Pledged deposits	234,670	232,522
Other deposits	4,022	21,682
Subtotal deposits from customers	3,633,947	2,985,025
Accrued interest	38,155	32,863
Total	3,672,102	3,017,888

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

31 Accrued staff costs

	Notes	30 June 2020	31 December 2019
Salary and welfare payable		9,058	6,269
Pension payable	(a)	763	620
Supplementary retirement benefits payable	(b)	1,118	1,118
Total		10,939	8,007

Notes:

(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 the 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 reporting period.

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

32 Taxes payable

	30 June 2020	31 December 2019
Income tax payable	4,439	6,446
Value added tax payable	2,840	2,446
Others	472	430
Total	7,751	9,322

33 Lease liabilities

	30 June 2020	31 December 2019
Within 1 year (inclusive)	2,617	2,611
1 to 2 years (inclusive)	2,282	2,283
2 to 3 years (inclusive)	1,943	1,937
3 to 5 years (inclusive)	2,646	2,711
More than 5 years	3,103	3,292
Total undiscounted lease liabilities	12,591	12,834
Lease liabilities	10,893	11,069

(Expressed in millions of Renminbi, unless otherwise stated)

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

34 Debt securities issued

	Notes	30 June 2020	31 December 2019
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	27,791	55,782
Tier-two capital bonds issued	(c)	39,984	39,983
Convertible bonds issued	(d)	27,970	27,547
Interbank deposits issued	(e)	222,470	199,057
Certificates of deposit issued	(f)	19,227	19,249
Medium term notes	(g)	13,676	20,428
Subtotal		357,818	368,746
Accrued interest		2,069	3,158
Total		359,887	371,904

(a) Subordinated debts issued

	Notes	30 June 2020	31 December 2019
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) Fixed rate subordinated debts of RMB6.70 billion with 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 2020, the fair value of the total subordinated debts issued approximated to RMB6,994 million (31 December 2019: RMB6,998 million).

(b) Financial bonds issued

	Notes	30 June 2020	31 December 2019
Financial fixed rate bonds maturing in February 2020	(i)	–	27,999
Financial fixed rate bonds maturing in July 2020	(ii)	21,999	21,995
Financial fixed rate bonds maturing in November 2021	(iii)	4,993	4,990
Financial fixed rate bonds maturing in January 2022	(iv)	799	798
Total		27,791	55,782

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

34 Debt securities issued (continued)

(b) Financial bonds issued (continued)

Notes:

(i) 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.

(ii) 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.

(iii) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.

(iv) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.

(v) As at 30 June 2020, the fair value of the total financial bonds issued approximated to RMB27,916 million (31 December 2019: RMB56,058 million).

(c) Tier-two capital bonds issued

	Notes	30 June 2020	31 December 2019
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,989	27,988
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,995	11,995
Total		39,984	39,983

Notes:

(i) 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.

(ii) 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.

(iii) As at 30 June 2020, the fair value of the total tier-two capital bonds issued approximated to RMB41,058 million (31 December 2019: RMB40,935 million).

(Expressed in millions of Renminbi, unless otherwise stated)

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

34 Debt securities issued (continued)

(d) Convertible bonds issued

	30 June 2020	31 December 2019
Fixed rate six years convertible bonds issued in March 2017	27,970	27,547

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

	Note	Liability component	Equity component Note III 37	Total
Nominal value of convertible 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
Accumulated amortisation as at 1 January 2020		2,786	–	2,786
Accumulated conversion amount as at 1 January 2020		(1)	–	(1)
Balance as at 1 January 2020		27,547	5,161	32,708
Amortisation during the period		423	–	423
Conversion amount during the period	(iv)	–	–	–
Balance as at 30 June 2020		27,970	5,161	33,131

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

34 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes:

(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 the 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 total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2020, the new conversion price is RMB3.76 per share.*

(iv) *As at 30 June 2020, a total of RMB1,003,000 (31 December 2019: RMB965,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 237,665 shares (31 December 2019: 228,101 shares).*

(v) *For the six months ended 30 June 2020, a total of RMB300 million interests on the convertible bonds have been paid by the Bank (Six month ended 30 June 2019: RMB150 million).*

(e) Interbank deposits issued

For the six months ended 30 June 2020, 133 inter-bank deposits were issued by the Bank and measured at amortized cost with carrying amount is RMB191,640 million (six months ended 30 June 2019: RMB95,530 million). The carrying amount of inter-bank deposits due in the six months ended 30 June 2020 was RMB168,960 million (six months ended 30 June 2019: RMB95,960 million). As at 30 June 2020, the fair value of its outstanding interbank deposits issued was RMB219,726 million (31 December 2019: RMB196,493 million).

(f) Certificates of deposit issued

As at 30 June 2020, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branch and Sydney branch and measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(Expressed in millions of Renminbi, unless otherwise stated)

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

34 Debt securities issued (continued)

(g) Medium term notes

	Notes	30 June 2020	31 December 2019
Medium term notes with fixed rate maturing in 8 March 2020	(i)	–	3,472
Medium term notes with floating rate maturing in 13 June 2020	(ii)	–	3,484
Medium term notes with floating rate maturing in 13 June 2021	(iii)	2,370	2,342
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,121	2,091
Medium term notes with floating rate maturing in 19 September 2021	(v)	2,119	2,083
Medium term notes with floating rate maturing in 24 June 2022	(vi)	3,538	3,484
Medium term notes with floating rate maturing in 11 December 2022	(vii)	3,528	3,472
Total		13,676	20,428

Notes:

(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 1 March 2017. The coupon rate is 2.50% per annum.*

(ii) *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.*

(iii) *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.*

(iv) *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.*

(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 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vi) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(viii) *As at 30 June 2020, the fair value of the medium term notes approximated to RMB13,709 million (31 December 2019: RMB20,478 million).*

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

35 Other liabilities

	Notes	30 June 2020	31 December 2019
Deferred income	(a)	6,442	6,710
Bank loans	(b)	18,669	17,597
Finance leases payable		5,525	4,876
Provisions	(c)	3,193	2,751
Payment and collection clearance accounts		1,780	1,761
Dormant accounts		398	354
Dividend payables		2,528	21
Deferred tax liabilities		–	1
Others		17,808	20,137
Total		56,343	54,208

Notes:

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

(b) *As at 30 June 2020, the Group's subsidiary Everbright Financial Leasing borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB18,669 million (31 December 2019: RMB17,597 million).*

(c) *As at 30 June 2020, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB142 million (31 December 2019: RMB255 million).*

36 Share capital

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

	30 June 2020	31 December 2019
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.

(Expressed in millions of Renminbi, unless otherwise stated)

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

37 Other equity instrument

	Note III	30 June 2020	31 December 2019
Preference shares (Notes (a), (b), (c), (d))		64,906	64,906
Equity of convertible bonds	34(d)	5,161	5,161
Total		70,067	70,067

(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
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion trigger events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

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

37 Other equity instrument (continued)

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

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

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

(ii) Conditions to distribution of dividends

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

(iii) Dividend blocker

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

(iv) Order of distribution and liquidation method

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

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (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) CBIRC 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.

(Expressed in millions of Renminbi, unless otherwise stated)

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

37 Other equity instrument (continued)

(b) Main Clauses (continued)

(vi) Redemption

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

(c) Changes in preference shares outstanding

	1 January 2020		Additions for the period		30 June 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	350	34,959	650	64,906

(d) Interests attributable to equity instruments' holders

Items	30 June 2020	31 December 2019
Total equity attributable to equity shareholders of the Bank	390,312	384,982
– Equity attributable to ordinary shareholders of the Bank	325,406	320,076
– Equity attributable to preference shareholders of the Bank	64,906	64,906
Total equity attributable to non-controlling interests	1,131	1,072
– Equity attributable to non-controlling interests of ordinary shares	1,131	1,072
– Equity attributable to non-controlling interests of preference shares	–	–

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

38 Capital reserve

	30 June 2020	31 December 2019
Share premium	53,533	53,533

39 Other comprehensive income

	30 June 2020	31 December 2019
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	15	14
Remeasurement of defined benefit plan	(303)	(303)
Subtotal	(288)	(289)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,936	2,959
– Net change in fair value	2,161	1,998
– Net change in expected credit loss	775	961
Exchange differences on translation of financial statements	118	67
Subtotal	3,054	3,026
Total	2,766	2,737

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

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the previous year	904	307	4	47	(180)	1,082
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the period	163	(186)	1	51	–	29
As at 30 June 2020	2,161	775	15	118	(303)	2,766

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

40 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF, 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, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

41 Appropriation of profits

(a) At the Annual General Meeting of shareholders held on 5 June 2020 the shareholders approved the following profit appropriations for the year ended 31 December 2019:

- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;
- Appropriated RMB5,380 million to general reserve; and
- Declared cash dividends of RMB11,233 million to all ordinary shareholders of 52,489 million shares representing RMB2.14 per 10 shares before tax.

(b) At the Board Meeting held on 5 June 2020, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated using the 5.30% of dividend yield ratio for the Everbright P1.

(c) At the Board Meeting held on 27 March 2020, the dividend distribution of the Everbright P3 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB769 million representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

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

41 Appropriation of profits (continued)

(d) At the Annual General Meeting of shareholders held on 30 May 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

- Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;
- Appropriated RMB1,701 million to general reserve; and
- Declared cash dividends to all ordinary shareholders of RMB8,451 million representing RMB1.61 per 10 shares before tax.

(e) At the Board Meeting held on 30 May 2019, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2018, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(f) At the Board Meeting held on 30 July 2019, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, accruing from 13 August 2018, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

(Expressed in millions of Renminbi, unless otherwise stated)

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

42 Involvement with structured entities

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

The types of structured entities that the Group does not consolidate but in which it holds an interest include 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.

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 the end of the reporting period:

	30 June 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	219,996	219,996	159,760	159,760
– Asset management plans	22,971	22,971	18,686	18,686
Financial investments measured at amortised cost				
– Asset management plans	246,142	246,142	256,569	256,569
– Asset-backed securities	119,747	119,747	119,439	119,439
Total	608,856	608,856	554,454	554,454

(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 2020, 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.

As at 30 June 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB795,425 million (31 December 2019: RMB778,837 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 30 June 2020 was nil (Six months ended 30 June 2019: nil).

For the six months ended 30 June 2020, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB1,463 million (Six months ended 30 June 2019: RMB266 million).

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

42 Involvement with structured entities (continued)

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

For the purpose of asset-liability management, wealth management products may cause 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 transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Financial assets held under resale agreements". As at 30 June 2020, the balance of above transactions was RMB18,929 million (31 December 2019: RMB9,106 million 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 2020, the amount of interest receivables from the above financing recognised was not material for the Group in the statement of profit or loss.

In addition, as at 30 June 2020, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note III 43. During the six months ended 30 June 2020, 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.

43 Transferred financial assets

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

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

43 Transferred financial assets (continued)

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 de-recognition, the Group derecognised the transferred credit assets in their entirety. The asset-backed securities held by the Group in the securitisation transactions was nil as at 30 June 2020 (31 December 2019: RMB13 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. As at June 30 2020, the Group has no continuing involvement in credit asset-backed securities.

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.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2020, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets 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 2020, loans with an original carrying amount of RMB2,318 million (31 December 2019: RMB2,590 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, which were accounted for in other assets and other liabilities. As at 30 June 2020, the carrying amount of assets that the Group continues to recognise amounts to RMB379 million (31 December 2019: RMB614 million).

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

44 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. 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 the Group's 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.

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

The CBIRC 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)". Systemically important 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 collateral 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's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting period, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

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

44 Capital management (continued)

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

	30 June 2020	31 December 2019
Total common equity tier-one capital	326,205	320,793
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	61,460	61,431
Surplus reserve	26,245	26,245
General reserve	59,718	59,417
Retained earnings	125,494	120,494
Qualifying portions of non-controlling interests	799	717
Common equity tier-one capital deductions	(2,943)	(2,930)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(1,659)	(1,646)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	323,262	317,863
Additional tier-one capital	65,013	65,002
Additional tier-one capital instruments	64,906	64,906
Qualifying portions of non-controlling interests	107	96
Tier-one capital net	388,275	382,865
Tier-two capital	86,084	82,640
Qualifying portions of tier-two capital instruments issued and share premium	44,524	46,683
Excess loan loss provisions	41,347	35,766
Qualifying portions of non-controlling interests	213	191
Net capital base	474,359	465,505
Total risk-weighted assets	3,722,155	3,456,054
Common equity tier-one capital adequacy ratio	8.68%	9.20%
Tier-one capital adequacy ratio	10.43%	11.08%
Capital adequacy ratio	12.74%	13.47%

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

45 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents:

	For the six months ended 30 June	
	2020	2019
Cash and cash equivalents as at 30 June	140,992	205,828
Less: Cash and cash equivalents as at 1 January	117,499	187,680
Net increase in cash and cash equivalents	23,493	18,148

(b) Cash and cash equivalents:

	30 June 2020	30 June 2019
Cash on hand	8,032	5,171
Deposits with the central bank	59,672	106,461
Deposits with banks and other financial institutions	38,904	61,900
Placements with banks and other financial institutions	34,384	32,296
Total	140,992	205,828

46 Related party relationships and transactions

(a) The immediate and ultimate parent companies

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

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 46(b)(ii).

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

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. ("Everbright Securities")	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright 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.
– 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 Cloud Payment Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance 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.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.

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

46 Related party relationships and transactions (continued)

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

(i) Other related parties information (continued)

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

Related party	Relationship with the Group
Affiliated companies (continued)	
– Hangzhou jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Senior Healthcare Co., Ltd	Affiliate of China Everbright Group Ltd.
– China Everbright Culture Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Development Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Beijing Caiwan Internet Information Service Co., Ltd	Affiliate of China Everbright Group Ltd.
–Everbright Huichen Senior Care Service Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Cloud Payment Technology Co., Ltd	Affiliate of China Everbright Group Ltd.
– CYTS Real Estate (Jiangsu) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Guiyun Asset Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Yuanfu Asset Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Jujiahuimin Co., Ltd	Affiliate of China Everbright Group Ltd.

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

46 Related party relationships and transactions (continued)

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

(i) Other related parties information (continued)

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

Related party	Relationship with the Group
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust 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
– Konka Group 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
– COSCO Shipping Development Co., Ltd.	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Peacebird Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co., Ltd.	Common key management
– Shanghai Insurance Exchange Co., Ltd.	Common key management
– Beijing Jingneng Clean Energy Co., Ltd.	Common key management
– Shijiazhuang Hualin Food Co., Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co., Ltd.	Common key management
– China Eastern Airlines Co., Ltd	Common key management
– Huadian Fuxin Energy Co., Ltd	Common key management
– Shanghai Benemae Pharmaceutical Co., Ltd.	Common key management
– China Cinda Asset Management Co., Ltd.	Common key management

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

46 Related party relationships and transactions (continued)

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

(ii) Related party transactions

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

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2020:				
Interest income	–	327	287	614
Interest expense	(67)	(177)	(204)	(448)
Balances with related parties as at 30 June 2020:				
Placements with banks and other financial institutions	–	500	–	500
Derivative financial assets	–	–	40	40
Financial assets held under resale agreements	–	369	376	745
Loans and advances to customers	–	8,207	13,324	21,531
Financial assets at fair value through profit or loss	–	8,458	701	9,159
Debt instruments at fair value through other comprehensive income	103	260	–	363
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	112,283	512	112,795
Other assets	–	844	–	844
Total	103	130,921	15,051	146,075
Deposits from banks and other financial institutions	–	3,850	1,536	5,386
Derivative financial liabilities	–	–	65	65
Deposits from customers	5,769	12,605	55,993	74,367
Total	5,769	16,455	57,594	79,818
Significant other sheet items with related parties as at 30 June 2020:				
Guarantee granted (Note)	180	–	–	180

(Expressed in millions of Renminbi, unless otherwise stated)

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

46 Related party relationships and transactions (continued)

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

(ii) Related party transactions (continued)

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

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2019:				
Interest income	–	265	164	429
Interest expense	(88)	(164)	(230)	(482)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

Note: As at 30 June 2020, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2019: RMB180 million) due to one of the state-owned commercial banks.

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

46 Related party relationships and transactions (continued)

(c) China Investment Corporation, 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 established 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 holding 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, purchases and sales 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 deposit and certificates of deposit 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	
	2020	2019
Interest income	496	616
Interest expense	(1,577)	(1,755)

(Expressed in millions of Renminbi, unless otherwise stated)

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

46 Related party relationships and transactions (continued)

(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 2020	31 December 2019
Deposits with banks and other financial institutions	9,462	9,552
Precious metals	13	51
Placements with banks and other financial institutions	26,522	13,909
Derivative financial assets	2,207	3,764
Financial assets held under resale agreements	3,445	997
Loans and advances to customers	2,243	694
Financial assets at fair value through profit or loss	29,669	36,270
Debt instruments at fair value through other comprehensive income	29,716	27,611
Financial investments measured at amortised cost	121,931	106,537
Other assets	845	419
Deposits from banks and other financial institutions	88,755	81,621
Placements from banks and other financial institutions	82,914	70,629
Derivative financial liabilities	2,229	3,678
Financial assets sold under repurchase agreements	–	2,970
Deposits from customers	47,879	14,586
Other liabilities	88	30

(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; sales, purchases, underwriting and redemption of bonds issued by other state-owned entities; purchases, sales and leases of property and other assets; and rendering and receiving of utilities and other services.

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

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

46 Related party relationships and transactions (continued)

(e) Key management personnel

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Remuneration	13,198	6,991
Retirement benefits	388	526
– Basic social pension insurance	179	302

(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 2020 RMB'000	31 December 2019 RMB'000
Aggregate amount of relevant loans outstanding as at the period end	8,722	8,867
Maximum aggregate amount of relevant loans outstanding during the period	8,733	8,994

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Statement of financial position of the Bank

	Note III	30 June 2020	31 December 2019
Assets			
Cash and deposits with the central bank		379,485	364,184
Deposits with banks and other financial institutions		40,624	28,648
Precious metals		13,430	10,826
Placements with banks and other financial institutions		60,399	60,466
Derivative financial assets		14,631	13,754
Financial assets held under resale agreements		192,469	6,709
Loans and advances to customers		2,844,133	2,642,764
Financial investments		1,624,733	1,425,223
– Financial assets at fair value through profit or loss		313,275	207,634
– Debt instruments at fair value through other comprehensive income		201,051	175,565
– Equity instruments at fair value through other comprehensive income		869	618
– Financial investments measured at amortised cost		1,109,538	1,041,406
Investments in subsidiaries	18	12,383	12,383
Fixed assets		14,118	14,041
Right-of-use assets		11,395	11,599
Goodwill		1,281	1,281
Deferred tax assets		18,898	15,446
Other assets		55,654	34,243
Total assets		5,283,633	4,641,567

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

47 Statement of financial position of the Bank (continued)

	30 June 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	167,625	224,758
Deposits from banks and other financial institutions	484,490	450,716
Placements from banks and other financial institutions	124,834	108,045
Derivative financial liabilities	15,648	13,821
Financial assets sold under repurchase agreements	24,793	24,542
Deposits from customers	3,670,687	3,016,555
Accrued staff costs	10,716	7,834
Taxes payable	7,454	8,729
Lease liabilities	10,826	10,986
Debts securities issued	353,951	366,061
Other liabilities	26,528	28,218
Total liabilities	4,897,552	4,260,265
Equity		
Share capital	52,489	52,489
Other equity instrument	70,067	70,067
of which: preference shares	64,906	64,906
Capital reserve	53,533	53,533
Other comprehensive income	2,674	2,617
Surplus reserve	26,245	26,245
General reserve	58,523	58,523
Retained earnings	122,550	117,828
Total equity	386,081	381,302
Total liabilities and equity	5,283,633	4,641,567

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

48 Segment reporting

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

Corporate banking

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

Retail banking

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

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase 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 measurement of segment income, expenses and results are 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.

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

48 Segment reporting (continued)

(a) Segment results, assets and liabilities

	For the six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,445	27,913	15,308	–	54,666
Internal net interest income/(expense)	13,932	(7,580)	(6,352)	–	–
Net interest income	25,377	20,333	8,956	–	54,666
Net fee and commission income	4,653	8,893	587	–	14,133
Net trading gains	–	–	57	–	57
Dividend income	–	–	1	–	1
Net (losses)/gains arising from investment securities	(35)	1	2,813	–	2,779
Foreign exchange gains/(losses)	120	37	(86)	–	71
Other net operating income	373	19	26	32	450
Operating income	30,488	29,283	12,354	32	72,157
Operating expenses	(8,402)	(9,932)	(1,054)	(58)	(19,446)
Operating profit before impairment	22,086	19,351	11,300	(26)	52,711
Credit impairment losses	(12,214)	(18,195)	(117)	–	(30,526)
Other impairment losses	(112)	(33)	(2)	–	(147)
Profit before tax	9,760	1,123	11,181	(26)	22,038
Other segment information					
– Depreciation and amortisation	1,224	1,148	131	–	2,503
– Capital expenditure	525	650	63	–	1,238

	30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,157,491	1,282,940	1,926,517	488	5,367,436
Segment liabilities	2,912,829	901,025	1,177,240	3,369	4,994,463

(Expressed in millions of Renminbi, unless otherwise stated)

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

48 Segment reporting (continued)

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

	For the six months ended 30 June 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	12,764	26,851	9,568	–	49,183
Internal net interest income/(expense)	9,849	(8,503)	(1,346)	–	–
Net interest income	22,613	18,348	8,222	–	49,183
Net fee and commission income	3,652	8,634	463	–	12,749
Net trading gains	–	–	69	–	69
Dividend income	–	–	–	11	11
Net gains arising from investment securities	89	6	2,869	10	2,974
Foreign exchange gains	157	38	583	–	778
Other net operating income	332	13	41	74	460
Operating income	26,843	27,039	12,247	95	66,224
Operating expenses	(7,664)	(9,543)	(1,117)	(39)	(18,363)
Operating profit before impairment	19,179	17,496	11,130	56	47,861
Credit impairment losses	(11,117)	(12,150)	(64)	–	(23,331)
Other impairment losses	(38)	(10)	–	–	(48)
Profit before tax	8,024	5,336	11,066	56	24,482
Other segment information					
– Depreciation and amortisation	1,055	1,075	131	–	2,261
– Capital expenditure	691	586	62	–	1,339

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

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

48 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 2020	31 December 2019
Segment assets		5,367,436	4,715,844
Goodwill	21	1,281	1,281
Deferred tax assets	22	19,717	16,306
Total assets		5,388,434	4,733,431
Segment liabilities		4,994,463	4,347,355
Dividend payables	35	2,528	21
Deferred tax liabilities	35	–	1
Total liabilities		4,996,991	4,347,377

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group set up branches in Hong Kong, Luxembourg, Seoul and Sydney, and with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include fixed assets, right-of-use assets, 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 and Everbright Wealth: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

(Expressed in millions of Renminbi, unless otherwise stated)

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

48 Segment reporting (continued)

(b) Geographical information (continued)

– "Overseas" refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the head office of the Group.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Overseas	Head Office	Total
For the six months ended 30 June 2020	13,664	9,515	11,176	12,401	8,527	3,200	1,381	12,293	72,157
For the six months ended 30 June 2019	11,957	8,578	9,866	10,596	7,105	2,937	1,068	14,117	66,224

	Non-current Asset (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Overseas	Head Office	Total
30 June 2020	3,763	3,205	3,593	8,501	3,112	1,459	540	8,427	32,600
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	566	8,489	32,760

Note:

(i) Including fixed assets, right-of-use assets, intangible assets and land use rights.

49 Risk Management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

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.

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

49 Risk Management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from 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.

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 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, Investment Banking Department, Inclusive Finance Department, Credit Card Centre and Retail and Wealth Management 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, and they are the first line of defence 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, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the 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 Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

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

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

49 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval 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 conforms 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 collateral 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.

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

49 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

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.

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.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

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

49 Risk Management (continued)

(a) Credit risk (continued)

Treasury business

The Group implemented differentiated risk access standards of investments, ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group set credit risk limits for different counterparties, taking into considerations factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL
The ECL is a weighted average of credit losses on financial instruments weighted at the probability 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;

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 was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting 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 measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

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

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

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;

- 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 flows

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

49 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 the end of each reporting period. 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 at the end of the reporting period 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

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

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

49 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 collateral, repayments.) 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)

49 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 collateral, 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, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

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.

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

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Forward-looking information (continued)
In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the 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. The Group increased the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

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 de-recognition 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 de-recognition 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 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

(Expressed in millions of Renminbi, unless otherwise stated)

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

49 Risk Management (continued)

(a) Credit risk (continued)

(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 the statement of financial position items as at the end of the reporting period is disclosed in Note III 52(a).

	30 June 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	379,643	–	–	–	379,643
Deposits with banks and other financial institutions	43,658	–	–	–	43,658
Placements with banks and other financial institutions	59,196	–	227	–	59,423
Financial assets held under resale agreements	192,506	–	–	–	192,506
Loans and advances to customers	2,716,464	108,863	20,430	–	2,845,757
Finance lease receivables	92,179	2,265	5	–	94,449
Financial investments	1,312,301	180	4,697	318,902	1,636,080
Others (Note)	48,607	–	–	16,044	64,651
Total	4,844,554	111,308	25,359	334,946	5,316,167

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

Note: Others comprise precious metal (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

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

49 Risk Management (continued)

(a) Credit risk (continued)

(ii) 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 2020	31 December 2019
Impaired		
Carrying amount	668	366
Provision for impairment losses	(441)	(366)
Subtotal	227	–
Overdue but not impaired		
– grade B to BBB	–	270
Neither overdue nor impaired		
– grade A to AAA	288,239	73,880
– grade B to BBB	1,984	5,879
– unrated (Note)	5,137	18,434
Subtotal	295,360	98,193
Total	295,587	98,463

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)

49 Risk Management (continued)

(a) Credit risk (continued)

(ii) 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 2020	31 December 2019
Impaired		
Carrying amount	1,635	1,662
Provision for impairment losses	(1,120)	(1,038)
Subtotal	515	624
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	413	1,033
– grade AA- to AA+	1,550	810
– grade A- to A+	25,750	25,497
– grade lower than A–	22,637	30,001
Subtotal	50,350	57,341
Other agency ratings		
– grade AAA	797,011	740,453
– grade AA- to AA+	88,939	63,240
– grade A- to A+	571	548
– grade lower than A–	2,454	2,119
– unrated	196,107	120,451
Subtotal	1,085,082	926,811
Total	1,135,947	984,776

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

49 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 under the banking book. 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.

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.

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

49 Risk Management (continued)

(b) Market risk (continued)

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 basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

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

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period:

	30 June 2020						
	Effective interest rate (*)	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	1.43%	379,643	19,672	359,971	–	–	–
Deposits with banks and other financial institutions	1.16%	43,658	27	40,619	3,012	–	–
Placements with banks and other financial institutions	2.23%	59,423	147	43,641	15,139	496	–
Financial assets held under resale agreements	1.69%	192,506	37	192,469	–	–	–
Loans and advances to customers	5.52%	2,845,757	29,541	2,101,109	615,696	95,580	3,831
Finance lease receivables	6.01%	94,449	1,408	52,902	18,337	16,010	5,792
Financial investments	4.10%	1,636,080	62,058	315,650	245,234	612,398	400,740
Others	–	136,918	133,762	–	–	–	3,156
Total assets	4.68%	5,388,434	246,652	3,106,361	897,418	724,484	413,519
Liabilities							
Due to the central bank	3.33%	167,722	3,725	85,340	78,657	–	–
Deposits from banks and other financial institutions	2.30%	478,539	2,127	375,782	100,630	–	–
Placements from banks and other financial institutions	2.53%	189,515	733	132,260	56,222	300	–
Financial assets sold under repurchase agreements	2.20%	27,433	24	24,020	3,150	239	–
Deposits from customers	2.37%	3,672,102	42,771	2,078,450	811,153	739,722	6
Debt securities issued	3.27%	359,887	2,069	159,737	145,605	5,792	46,684
Others	–	101,793	80,840	9,740	7,308	3,905	–
Total liabilities	2.48%	4,996,991	132,289	2,865,329	1,202,725	749,958	46,690
Asset-liability gap	2.20%	391,443	114,363	241,032	(305,307)	(25,474)	366,829

(Expressed in millions of Renminbi, unless otherwise stated)

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

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period (continued):

	31 December 2019						
	Effective interest rate (*)	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	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

* *Effective interest rate represents the ratio of interest income/expense to average interest-bearing assets/liabilities.*

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

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(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 2020, 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 RMB976 million (31 December 2019: decrease by RMB969 million), and equity to decrease by RMB6,320 million (31 December 2019: decrease by RMB5,039 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,114 million (31 December 2019: increase by RMB1,017 million), and equity to increase by RMB6,803 million (31 December 2019: increase by RMB5,316 million).

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;

– 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.

(Expressed in millions of Renminbi, unless otherwise stated)

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

49 Risk Management (continued)

(b) Market risk (continued)

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.

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

	30 June 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	368,891	10,278	474	379,643
Deposits with banks and other financial institutions	14,279	21,058	8,321	43,658
Placements with banks and other financial institutions	17,979	38,938	2,506	59,423
Financial assets held under resale agreements	192,469	37	–	192,506
Loans and advances to customers	2,675,625	108,356	61,776	2,845,757
Finance lease receivables	93,277	1,172	–	94,449
Financial investments	1,538,388	86,110	11,582	1,636,080
Others	123,131	12,869	918	136,918
Total assets	5,024,039	278,818	85,577	5,388,434
Liabilities				
Due to the central bank	167,722	–	–	167,722
Deposits from banks and other financial institutions	478,267	152	120	478,539
Placements from banks and other financial institutions	80,035	85,130	24,350	189,515
Financial assets sold under repurchase agreements	22,512	3,269	1,652	27,433
Deposit from customers	3,492,777	144,398	34,927	3,672,102
Debt securities issued	326,960	29,151	3,776	359,887
Others	95,286	5,061	1,446	101,793
Total liabilities	4,663,559	267,161	66,271	4,996,991
Net position	360,480	11,657	19,306	391,443
Off-balance sheet credit commitments	1,475,774	47,044	13,515	1,536,333
Derivative financial instruments (Note)	4,058	11,062	(14,780)	340

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

49 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 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposit from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

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

49 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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 2020	31 December 2019
Exchange rates against RMB for the HK dollar	0.9127	0.8949
Exchange rates against RMB for the US dollar	7.0739	6.9687

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 2020, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB29 million (31 December 2019: increase by RMB7 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB29 million (31 December 2019: decrease by RMB7 million).

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;

– At the end of reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– 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.

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

49 Risk Management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(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 of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and longterm working capital on a regular basis, and for formulating liquidity management strategies. The Asset 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 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)

49 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 2020							
	Overdue/ 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	311,806	67,837	–	–	–	–	–	379,643
Deposit with banks and other financial institutions	–	39,957	317	372	3,012	–	–	43,658
Placements with banks and other financial institutions	227	–	37,064	6,424	15,195	513	–	59,423
Financial asset held under resale agreements	–	–	192,506	–	–	–	–	192,506
Loans and advances to customers	45,766	414,254	108,509	161,204	719,813	711,915	684,296	2,845,757
Finance lease receivables	28	–	1,878	3,997	16,974	58,265	13,307	94,449
Financial investments	6,651	220,155	78,894	48,063	247,960	632,607	401,750	1,636,080
Others	67,718	51,385	1,590	1,111	2,563	9,390	3,161	136,918
Total assets	432,196	793,588	420,758	221,171	1,005,517	1,412,690	1,102,514	5,388,434
Liabilities								
Due to the central bank	–	–	42,323	45,590	79,809	–	–	167,722
Deposits from banks and other financial institutions	–	156,457	58,211	162,846	101,025	–	–	478,539
Placements from banks and other financial institutions	–	6	77,013	55,731	56,465	300	–	189,515
Financial assets sold under repurchase agreements	–	–	20,396	3,637	3,161	239	–	27,433
Deposit from customers	–	1,439,145	275,795	377,617	824,503	755,036	6	3,672,102
Debt securities issued	–	–	60,594	86,831	122,844	42,934	46,684	359,887
Others	–	42,147	6,256	5,603	14,958	27,584	5,245	101,793
Total liabilities	–	1,637,755	540,588	737,855	1,202,765	826,093	51,935	4,996,991
Net position	432,196	(844,167)	(119,830)	(516,684)	(197,248)	586,597	1,050,579	391,443
Notional amount of derivative financial instruments	–	–	440,167	390,678	968,300	749,469	4,546	2,553,160

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

49 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 2019							
	Overdue/ 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	301,750	62,590	–	–	–	–	–	364,340
Deposit with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial asset held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposit from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

(Expressed in millions of Renminbi, unless otherwise stated)

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

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period:

	30 June 2020							
	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	167,722	169,383	–	42,375	45,827	81,181	–	–
Deposits from banks and other financial institutions	478,539	482,212	158,414	58,263	163,440	102,095	–	–
Placements from banks and other financial institutions	189,515	190,672	6	77,067	55,850	57,439	310	–
Financial assets sold under repurchase agreements	27,433	27,469	–	20,400	3,648	3,180	241	–
Deposits from customers	3,672,102	3,755,790	1,439,145	276,091	379,418	836,959	824,170	7
Debt securities issued	359,887	385,173	–	62,737	88,527	127,527	55,274	51,108
Other financial liabilities	64,185	67,346	20,264	4,547	4,632	12,776	19,041	6,086
Total non-derivative financial liabilities	4,959,383	5,078,045	1,617,829	541,480	741,342	1,221,157	899,036	57,201
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(781)	–	6	6	(121)	(519)	(153)
Derivative financial instruments settled on gross basis								
– Cash inflow		1,132,752	–	357,151	334,695	424,485	16,421	–
– Cash outflow		(1,131,948)	–	(356,980)	(333,843)	(424,689)	(16,436)	–
Total derivative financial liabilities		804	–	171	852	(204)	(15)	–

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

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period (continued):

	31 December 2019							
	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	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

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)

49 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 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	333,995	506	4,512	339,013
Guarantees, acceptances and other credit commitments	1,156,630	40,305	385	1,197,320
Total	1,490,625	40,811	4,897	1,536,333

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

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

49 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 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)

50 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 comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

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

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

50 Fair value (continued)

(b) Fair value measurement

(i) Financial assets

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

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of 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 17.

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities 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", and "debt securities issued" not presented at fair value at the end of reporting period:

	Carrying value		Fair value	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Financial assets				
Debt securities investments measured at amortised cost	863,502	784,943	879,145	796,461
Financial liabilities				
Debt securities issued	359,887	371,904	357,604	371,869

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

50 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities (continued)

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.

The fair values of debt securities issued 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. 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 with reference to another instrument that is substantially the same.

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

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	4,465	–	4,465
– Interest rate derivatives	–	10,165	1	10,166
– Credit derivatives	–	28	–	28
Loan and advances to customers	–	114,723	–	114,723
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	5,947	52,785	–	58,732
– Financial assets designated at fair value through profit or loss	–	–	3	3
– Other financial assets at fair value through profit or loss	226,765	28,318	4,210	259,293
Debt instruments at fair value through other comprehensive income	50,766	156,768	–	207,534
Equity instruments at fair value through other comprehensive income	22	–	852	874
Precious metals	1,385	–	–	1,385
Total	284,885	367,252	5,066	657,203
Liabilities				
Financial liabilities at fair value through profit or loss	142	–	–	142
Derivative financial liabilities				
– Currency derivatives	–	4,750	–	4,750
– Interest rate derivatives	–	10,898	1	10,899
– Credit derivatives	–	76	–	76
Total	142	15,724	1	15,867

(Expressed in millions of Renminbi, unless otherwise stated)

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

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

During the reporting period, there were no significant transfers within the fair value hierarchy of the Group.

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

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the period ended 30 June 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	(1)	(1)	–	(2)	2	2
Purchases	–	209	250	459	–	–
Settlements	–	(29)	–	(29)	–	–
30 June 2020	1	4,213	852	5,066	(1)	(1)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(1)	(1)	–	(2)	2	2

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(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	(5)	(725)	–	(730)	4	4

(Expressed in millions of Renminbi, unless otherwise stated)

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

50 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 investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	30 June 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	157,278	721,867	–	879,145
Financial liabilities				
Debt securities issued	28,975	328,629	–	357,604

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

(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 2020, the carrying amounts of financial instruments 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)

51 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 2020	31 December 2019
Entrusted loans	141,232	139,790
Entrusted funds	141,232	139,790

52 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 under takings 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 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	20,393	19,855
– Original contractual maturity more than one year (inclusive)	8,923	13,732
Credit card commitments	309,697	290,156
Subtotal	339,013	323,743
Acceptances	793,215	609,169
Letters of guarantee	125,961	128,746
Letters of credit	277,959	225,653
Guarantees	185	185
Total	1,536,333	1,287,496

The Group may be exposed to credit risk in all the credit businesses above. 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)

52 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	30 June 2020	31 December 2019
Credit risk-weighted amount of credit commitments	391,398	380,959

The credit risk-weighted amount of credit commitments represents 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) Capital commitments

As at the end of reporting period, the Group's authorised capital commitments are as follows:

	30 June 2020	31 December 2019
Contracted but not paid		
– Purchase of property and equipment	1,362	1,100
Approved but not contracted for		
– Purchase of property and equipment	2,983	2,817
Total	4,345	3,917

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2020.

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 the end of reporting period, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2020	31 December 2019
Redemption commitments	5,774	6,626

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

52 Commitments and contingent liabilities (continued)

(e) Outstanding litigations and disputes

As at 30 June 2020, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,221 million (31 December 2019: RMB1,384 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels(Note III 35). The Group considers that the provisions made are reasonable and adequate.

53 Subsequent Events

The commencement of business of Beijing Sunshine Consumer Finance Co., Ltd. was approved

In the 28th Meeting of the Seventh Session of the Board of Directors of the Bank held on 15 September 2019, the Beijing Sunshine Consumer Finance Company Limited was approved to be established by the Bank together with China Youth Tourism Holding Co., Ltd. and other promoters. The Bank will invest RMB600 million, representing 60% of the equity.

On 1 January 2020, the Bank received the Approval Regarding the establishment of Beijing Sunshine Consumer Finance Company Limited (CBIRC Approval [2020] No. 16) from CBIRC.

On 10 August 2020, the Bank received the Approval Regarding the commencement of business of Beijing Sunshine Consumer Finance Company Limited (Jing CBIRC Approval [2020] No. 466) from CBIRC Beijing Bureau.

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*, 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 2020
Liquidity coverage ratio	171.87%
High Quality Liquid Assets	833,515
Net cash outflows in 30 days from the end of the reporting period	484,964

Liquidity Ratio*

	As at 30 June 2020	Average for the period ended 30 June 2020	As at 31 December 2019	Average for the year ended 31 December 2019
RMB current assets to RMB current liabilities	70.90%	68.33%	72.63%	69.29%
Foreign current assets to foreign current liabilities	110.41%	96.52%	93.29%	79.43%

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

Leverage Ratio

	30 June 2020
Leverage Ratio	5.99%

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 fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulates that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 30 June 2020, the Group meet the supervision requirement with the net stable funding ratio standing at 109.19%.

Indicators	30 June 2020
Available and stable funds	3,001,492
Required stable funds	2,748,866
Net stable funding ratio	109.19%

2 CURRENCY CONCENTRATIONS

	30 June 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	278,818	41,887	43,690	364,395
Spot liabilities	(267,161)	(38,073)	(28,198)	(333,432)
Forward purchases	599,057	11,323	10,893	621,273
Forward sales	(587,995)	(13,712)	(23,284)	(624,991)
Net long position	22,719	1,425	3,101	27,245
Net structural position	18	41	26	85

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include fixed assets.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

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

International claims include loans and advances to customers, deposits with central banks, deposits and placements with 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 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	87,551	4,508	41,558	133,617
– of which attributed to Hong Kong	26,463	686	18,163	45,312
Europe	18,721	753	32,414	51,888
North and South America	17,985	356	22,722	41,063
Total	124,257	5,617	96,694	226,568

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	30 June 2020	31 December 2019
Head Office	9,716	8,963
Yangtze River Delta	6,143	5,899
Bohai Rim	4,726	5,201
Western	3,934	4,550
Central	3,971	3,687
Pearl River Delta	3,789	3,129
Northeastern	3,519	2,470
Overseas	8	8
Total	35,806	33,907

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.

(b) By overdue day

	30 June 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,323	8,851
– between 6 months and 1 year (inclusive)	13,171	13,642
– over 1 year	14,312	11,414
Total	35,806	33,907
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.28%	0.33%
– between 6 months and 1 year (inclusive)	0.45%	0.50%
– over 1 year	0.49%	0.42%
Total	1.22%	1.25%

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)

(c) Collateral of loans and advances past due but not impaired

	30 June 2020	31 December 2019
Covered portion of loans and advances past due but not impaired	5,136	6,357
Uncovered portion of loans and advances past due but not impaired	19,750	18,947
Total loans and advances past due but not impaired	24,886	25,304
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	15,954	16,258

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 2020, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.

Designed & Produced by HeterMedia Services Limited

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